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Note: A separate document containing the reports prepared by the Barrett Sports Group, Contracts Committee Report attachments, and the full Chargers proposal is on file in the Office of the City Clerk.

CITIZENS' TASK FORCE ON CHARGERS ISSUES

March 6, 2003

Hon. Mayor Dick Murphy
and Members of the City Council
202 C Street
San Diego, CA 92101

Re: Final Report of the Citizens' Task Force on Chargers Issues

Dear Mayor Murphy and Members of the City Council:

We are pleased to deliver the Final Report of the Citizens' Task Force on Chargers Issues. Our report represents seven months of information gathering, public testimony, analysis, deliberation and decision-making. Our report contains public input to the Task Force website and information from the dozens of documents available on the website. After 18 full Task Force meetings and 36 committee meetings, all open to the public, we believe the Task Force has generated negotiating principles and recommendations that provide a fiscally responsible method for keeping the San Diego Chargers in San Diego.

The Task Force recommends that the City and Chargers focus on negotiating an agreement leasing the 166-acre stadium site to the Chargers. The Chargers would pay 100 percent of the costs of constructing a new stadium. The lease also would require the Chargers to construct a riverfront park and an active recreation park as set forth in the Mission Valley Community Plan. The Chargers could seek additional entitlements to develop portions of the site for commercial and/or housing uses. Any new tax revenues generated from this new development could be used for payment of infrastructure, the parks and existing bond debt.

The Task Force believes the negotiating principles in the Final Report represent fiscally conservative guidelines that (1) protect taxpayers, (2) provide the Chargers an opportunity to construct a new stadium, and (3) create the potential for two parks on the site.

One of the strengths of the Task Force was its diversity of people. And diversity of opinion was not wanting. For instance, the recommendation to focus negotiations on the lease alternative was unanimous. However, the vote on allowing use of tax dollars for a new stadium was not. Task Force members Tom Fat, Len Simon and Jeff Smith voted in favor of allowing new tax revenues to be used for a new stadium, while the remaining members thought the Chargers should bear sole financial responsibility for a new stadium. The final vote on the report was 14-1, with Bruce Henderson opposed. He believes the City's first option should be to enforce the existing contract.

All the debates were courteous, intelligent and respectful. Although there may be continuing disagreement, all the issues and information are out in the open for all to scrutinize. We believe this process has been the most publicly accessible of any sports-related task force. We were honored to serve as chair and vice chair.

Sincerely,

David Watson
Chair, Citizens' Task Force on Chargers Issues

Nikki Clay
Vice-Chair, Citizens' Task Force on Chargers Issues

TASK FORCE MEMBERS

Task Force Member	*Professional Background*
David Watson (Chairperson)	Hecht, Solberg, Robinson, Goldberg & Bagley
Nikki Clay (Vice-Chairperson)	Carpi & Clay
Cassandra Clady	Employment Development Department Tax Branch
Pepper Coffey	Prudential California Realty
Timothy Considine	Considine & Considine
Tom Fat	Fat City, Inc.
Bruce Henderson	Henderson & Henderson
Karen Heumann	Hull McGuire PC
Bill Largent	Systems Integration & Research, Inc
Joseph Martinez	Martinez + Cutri Corporation Architects
Geoff Patnoe	San Diego County Taxpayers Association
Patti Roscoe	PRA Destination Management Company
Ron Saathoff	San Diego City Fire Fighters, Local 145
Len Simon	Milberg, Weiss, Bershad, Hynes & Lerach
Jeff Smith	Sunbelt Management Company

STAFF ACKNOWLEDGEMENTS

A special thank you to the following staff and consultants who worked very closely with the Task Force and Task Force committees to accomplish their mission:

City of San Diego Staff:

Libby Coalson, Special Projects Manager
Les Girard, Assistant City Attorney
Bruce Herring, Deputy City Manager
Lakshmi Kommi, Financing Services Manager
John Mullen, Deputy City Attorney
Stephen Shushan, Assistant Stadium Manager
Mary Vattimo, City Treasurer

City Consultants:

Dan Barrett, Barrett Sports Group
Paul Marra, Keyser Marston Associates, Inc.
Gerald Trimble, Keyser Marston Associates, Inc.
Michael Wong, Keyser Marston Associates, Inc.

The Task Force would also like to thank the City staff who worked diligently behind the scenes to provide valuable general assistance, video and audio services, and web access to the Task Force process.

Special Projects:

Jo-Ann Novak, Special Projects Assistant

City TV 24:

Rick Bollinger, Video Production Coordinator
Alex Handy, Multimedia Production Specialist
Marc Jaffe, Program Manager
Pamela Meneley, Production Contractor
Linda Robinson, Production Intern
Robert Stevens, Video Production Specialist
Tom Vogel, Video Production Specialist

Communications: (meeting audio)

Greg Allison, Communications Technician
John Campbell, Communications Technician
Martin DeLeon, Communications Technician
Bill Dunable, Communication Tech. Supervisor
Eddie Galan, Equipment Technician
Denise McAnally, Communications Technician
Ken Winkler, Communications Technician

Information Technology: (web page)

Ruben Camerino, Graphic Designer
Bill Cull, E-gov Program Manager
Lisa Goehring, Graphic Designer
Linda Kosta, Programmer/Analyst SDDPC
Linell Maloney, Web Production Administrator
Ellen Schauer, Web Development Manager
Eric Wu, Usability Analyst

MISSION STATEMENT

To determine whether the San Diego Chargers and the National Football League are important assets to the life and economy of San Diego, to include identification of what the Chargers have done for the City financially, specifically, the amount the City has paid for the ticket guarantee, the amount the Chargers have paid the City for the lease, the net revenue less maintenance and operating costs, and how this impacts the City budget; to determine all things that could be done to keep the Chargers in San Diego in a fiscally responsible way that the public will support; to recommend to the Mayor and City Council what the City should do, if anything, to keep the Chargers in San Diego in a fiscally responsible way that the public will support; to explore the feasibility of County and/or regional financial participation in any solution; and, to make any other recommendations to the Mayor and City Council that the Task Force deems appropriate.

TASK FORCE RECOMMENDATION

The Citizens' Task Force on Chargers Issues recommends that the San Diego City Council accept the Task Force Final Report and direct the City Manager and City Attorney to immediately begin discussions with the San Diego Chargers regarding modifications to the existing contract and the possible renovation or construction of a new stadium subject to these principles:

1. No cost to the City's General Fund.

2. If a proposal encompassing a new stadium includes development on the Qualcomm site, incremental taxes generated by that development, whether designated a redevelopment zone, an IFD, or otherwise, which incremental taxes would not otherwise be available to the City, may be employed by the City to pay for infrastructure at the site, a public park on the site or any debt that may remain from the prior renovation of Qualcomm Stadium.

3. Work to get the Chargers to agree to eliminate the trigger clause and the ticket guarantee at the outset of negotiations. Any new contract or lease between the City and the Chargers should not include a trigger clause or a ticket guarantee.

4. Any new agreement should address the existing debt, including outstanding bonds, the Qualcomm naming rights payout amount, the out clause on the concessionaire agreement, costs of infrastructure, and environmental impacts within the negotiated agreement.

5. Any new agreement should require the Chargers to be responsible for all hard and soft development costs, construction cost overruns, construction delays, management and maintenance of the facility, and revenue shortfalls.

6. Any new lease should be ironclad and require a long-term commitment from the Chargers to remain in San Diego for at least the term of any new stadium-related debt and include a provision that protects the City should the team be sold in the future.

7. Obtain a National Football League (NFL) commitment for multiple future Super Bowls as part of any new stadium deal.

8. A public park as set forth in the Mission Valley Community Plan and a riverfront park, a minimum of 18 acres in size, should be components of any major renovation or new stadium proposal at the 166-acre Qualcomm site.

9. Any agreement must provide for the use of a new football facility by the SDSU Aztecs, the Pacific Life Holiday Bowl, Gold Coast Classic and high school CIF football on terms consistent with current agreements for the use of Qualcomm Stadium.

10. The Chargers should be encouraged to explore and obtain private contributions for any new stadium project.

11. If the City chooses to develop the Qualcomm site with a new stadium, it should avoid any sale of the 166-acre site.

12. If the Qualcomm Stadium site is leased to the Chargers, the rent should be based on the value of the public assets and public amenities (including a new stadium and public park or parks) provided by the Chargers.

13. In the event of a lease to the Chargers for the Qualcomm site, a reversion clause is recommended to ensure that the property reverts to the City upon the termination, conclusion or breach of the agreement with the Chargers.

14. The Qualcomm Stadium site is centrally located to downtown, Mission Bay, Old Town, and San Diego State University, and collectively, these areas must be considered part of the urban core of San Diego.

15. The San Diego River is an asset to the entire region and its full potential and restoration must be realized.

16. The transportation access to the site is a tremendous asset to the urban core and of great benefit to the Qualcomm site. The site interfaces with 4 freeways, including I-15, I-805, I-8, and Highway 163. The east-west line of the trolley is another asset and its use (rider-ship) needs to be more fully utilized.

17. Infrastructure for the communities surrounding the Qualcomm site is inadequate to serve the current needs of the communities and a strategy must be developed to address these needs and other impacts in order to support further development at the site.

18. The Qualcomm Stadium site is a valuable regional public asset and is ideally suited to the concepts of the City of Villages and Sustainable Design. Furthermore, the site can meet many of the outstanding needs of the adjacent community and/or region, particularly those of park space, housing, and recreation.

19. Any new improvements should be considered regional public assets that serve broad cross-sections of the San Diego community with diverse uses, including current users, which are properly encouraged and promoted.

20. The final recommendation by the San Diego City Council regarding any new stadium plan should be approved by the voters.

Should the City Council move forward with the option of building a new stadium, the Task Force further recommends the City Council direct the City Manager and City Attorney to (1) focus their negotiation efforts on Facilities and Redevelopment Committee report 'Option 4 - Provide a New, State-of-the-Art Stadium and Lease of Site' approach to financing a new stadium at the Qualcomm site, (2) selectively use any elements of the other options that may be beneficial to the City, and (3) apply the principles set forth above throughout the entire negotiation process.

Should discussions between the City and Chargers not be successful or at such time as the City Council and/or City Attorney deem appropriate, the City should pursue its rights and remedies under the existing contract.

BACKGROUND FOR CITIZENS' TASK FORCE ON CHARGERS ISSUES

Stadium History

After one year of existence as the Los Angeles Chargers, the American Football League team moved to San Diego in 1961. The new San Diego Chargers temporarily played their football games in Balboa Stadium until an effort led by Jack Murphy, then Sports Editor of the San Diego Union, resulted in the San Diego City Council placing a measure on the November 1965 ballot that sought voter approval for the construction of a new $27.1 million multi-use sports stadium in Mission Valley. On November 2, 1965, Proposition 1 was approved by a 73% margin of San Diego voters and on December 24 of that same year construction began on a new stadium to provide a venue for both baseball and football.

The new San Diego Stadium, with a football seating capacity of approximately 52,000, opened on August 20, 1967 with a pre-season game between the Chargers and the Detroit Lions. On September 15, 1967 the San Diego State University (SDSU) Aztecs played for their first time in the stadium and on April 8, 1969 the San Diego Padres played the Houston Astros in their inaugural game in San Diego Stadium. The first Holiday Bowl game was played in 1978 between BYU and Navy.

In 1980, the stadium was re-named Jack Murphy Stadium and 29 skyboxes were constructed by the Chargers. That renovation was followed closely by a $9.1 million expansion in 1983 to increase the seating capacity at the stadium to over 60,000 and provide an additional 50 skyboxes. In 1985, a video-board and new scoreboard were added to the stadium. In 1997, a $78 million major renovation, including approximately $12 million for an off-site Chargers training facility, was approved by the San Diego City Council. The City funded $60 million of the 1997 renovation through the issuance of lease-revenue bonds and QUALCOMM Inc. entered into an agreement with the City, which terminates in 2017, to provide the remaining $18 million in exchange for naming rights to the stadium. This project increased the seating capacity to 71,500 and the number of skyboxes to 113, and provided 2 new video-boards.

An additional $5.0 million of renovations were performed in 2002 to improve stadium access for persons with disabilities in accordance with the Americans with Disabilities Act (ADA). At that time, 154 new wheelchair seats were installed throughout the stadium. These modifications required the removal of existing seats and the total seating capacity of the stadium was reduced to approximately 70,500.

Now known as Qualcomm Stadium, the stadium sits on approximately 166 acres of property located at the southwest corner of Friars Road and Mission Village Drive in Mission Valley. The stadium itself occupies 15 acres of the site and more than 18,000 parking spaces occupy another 122 acres. The site also contains the Chargers former training field located in the southwest corner, now leased to the Old Mission Beach Athletic Club (OMBAC) for rugby football. While the City owns the entire site, approximately 50% is held as an asset of the Water

Department which, because of City charter provisions and bond covenants, is accounted for separate and apart from general City funds and assets.

During its lifetime, the stadium has been host to a number of major events including NFL Super Bowls in 1988, 1998 and 2003, and two Major League Baseball (MLB) World Series games in 1984 and 1998. There have also been two MLB All-Star Games, 20 concerts, 23 international soccer matches, and numerous conventions held at the stadium. In addition to the 10 annual Chargers home games, 81 Padres games, and 6 SDSU Aztecs games, the stadium regularly hosts the annual Pacific Life Holiday Bowl and Gold Coast Classic football games; high school CIF football games; monster truck, super cross, and off road shows and events; and a number of car sales and other events in the stadium parking lot. Though the Padres will be moving out in one year, the stadium has been a versatile venue for a variety of events benefiting the entire region.

City and Chargers Contractual Relationship

In 1988, the City of San Diego and Chargers amended their pre-existing contract and drafted a new contract that provided for the Chargers to use what was then called Jack Murphy Stadium from 1988 until 2003. In 1994, before that contract term was complete, discussions began over a new and extended contract between the City and the San Diego Chargers. These discussions led to a new contract being executed and approved by the City Council and Chargers in 1995. In 1997, the same year in which QUALCOMM, Inc. negotiated its naming rights deal for the stadium, the original 1995 agreement was modified. This agreement, as executed in 1995 and modified in 1997, is the agreement under which the Chargers currently use Qualcomm Stadium to play two preseason and eight regular season home football games each season.

As described above, the City funded a major stadium renovation and constructed an offsite practice facility for the Chargers in 1997 in accordance with the agreement. The agreement provided for, among other features, expansion and various improvements to the stadium and a ticket guarantee commitment by the City. The City began fulfilling the obligation to purchase unsold general admission tickets up to 60,000 for each home game. This ticket guarantee requirement, which continues until 2007, has cost the City $31.5 million from its inception through the 2002 season. During the same period, the City received $35.8 million in rent from the Chargers, resulting in net revenue of $4.3 million.

The current agreement obligates the Chargers to play in Qualcomm Stadium until 2020. However, the contract also contains a complicated exit clause that could permit the Chargers to renegotiate that contract. If renegotiation fails, the team could potentially terminate its contract with the City following the 2004 season. If the Chargers could terminate their contractual relationship, they would then be able to depart San Diego and move to an alternate site, should there be one available. This “trigger” clause and the ticket guarantee provision of the contract have been controversial components of the City’s current contract with the San Diego Chargers.

Chargers Issues

Though Qualcomm Stadium has been used successfully for 35 years, by the summer of 2002 several issues had arisen regarding the Chargers and their continued utilization of the stadium.

First, the Chargers stated in an April 2002 letter from Chargers President and CEO Dean Spanos to San Diego Mayor Dick Murphy that the team was concerned about its ongoing economic viability as a franchise if it continued to use Qualcomm Stadium. (Appendix A contains the letter). Mr. Spanos indicated that the Chargers could have triggered their right to renegotiate their existing lease in 2001, and would likely be in a position to trigger in December 2002. Additionally, there had been reports in the press of the Los Angeles-based Anschutz Entertainment Group (AEG) having contacted the Chargers about a possible relocation to a proposed new stadium in Los Angeles. These reports came on the heels of the Chargers moving their training camp to Carson, California, into a facility owned by Anschutz which raised concerns about whether the Chargers were preparing to leave town.

Second, in 2002, the City was facing the start of another football season under the contract's ticket guarantee clause, described above. Because the City's 60,000 seat guarantee, if met by purchases, meant that ticket sales would exceed the threshold required by the NFL to lift the local television blackout of Chargers home games, a policy decision was made by the City to buy the tickets and lift the blackout. This decision concerned the Chargers and continues to do so. The Chargers' position has been that lifting the television blackout, without ticket sales naturally reaching the approximately 58,000 ticket threshold required by the NFL to lift it, discourages ticket sales.

Finally, the NFL had requested changes to Qualcomm Stadium in preparation for San Diego's hosting of the Super Bowl in January 2003; however, many of those changes could not be made. These changes included major renovations of the locker rooms, which were deemed impractical because of the uncertainty of the future of the stadium and the continued occupancy and use of the facilities by the Padres until 2004. The NFL expressed dissatisfaction with the City's inability to make these changes and settled on cosmetic changes in anticipation of the Super Bowl.

This combination of issues in addition to public outcries over the ticket guarantee made it clear to City of San Diego policy makers that some attention should be given to the stadium issues, the current contract with the football team, and the Chargers' desire for a new stadium.

Establishment of the Task Force

In June 2002 Mayor Murphy proposed, and the City Council approved, the establishment of a citizens' task force to address the issues surrounding the San Diego Chargers and their long-term utilization of Qualcomm Stadium. Fifteen people were appointed by the Mayor, eight from a pool of citizens nominated by the City Council, to form the Citizens' Task Force on Chargers Issues. The members were confirmed by the City Council on July 23, 2002 and began their work immediately. (Appendix B contains a list of members and their bios)

Task Force Process

Upon establishment, the Task Force was asked to complete the assignments outlined in the City Council-approved mission statement and report back to the City Council with the results of its work in February 2003. The Task Force mission included several components, as follows:

- *Determine whether the San Diego Chargers and the National Football League are important assets to the life and economy of San Diego, to include identification of what the Chargers have done for the City financially, specifically, the amount the City has paid for the ticket guarantee, the amount the Chargers have paid the City for the lease, the net revenue less maintenance and operating costs, and how this impacts the City budget;*

- *Determine all things that could be done to keep the Chargers in San Diego in a fiscally responsible way that the public will support;*

- *Recommend what the City should do, if anything, to keep the Chargers in San Diego in a fiscally responsible way that the public will support;*

- *Explore the feasibility of County and/or regional financial participation in any solution; and,*

- *Make any other recommendations that the Task Force deems appropriate.*

In order to attend to the issues outlined in the mission statement, the Task Force conducted a series of meetings beginning on August 8, 2002. Meeting approximately bi-weekly in varying locations around the City, the Task Force held 18 meetings of the full Task Force, including one Saturday workshop. (Appendix C contains the meeting schedule) The Task Force heard more than 30 presentations from various experts, consultants, public groups, the Chargers and the NFL, in addition to many interested citizens. In addition, the Task Force reviewed in excess of 90 reports, studies or other documents during their deliberations. (Bibliography contains a complete list of documents). The presentations and documents provided for a comprehensive review of issues relevant to responding to the mission.

The Task Force hearings began with a briefing and overview by City officials of the current agreement, and the group received formal presentations from the San Diego International Sports Council and representatives of the Chargers and the NFL. Task Force members also toured Qualcomm Stadium and were briefed on the uses and challenges of the stadium. Two sports architectural firms presented their ideas for possible renovations to Qualcomm Stadium to the Task Force. The Chargers and NFL were invited to present their case for a new stadium and to share their vision for a future at the Qualcomm site. The Chargers presented their proposal for a new stadium with a mixed-use development on the Qualcomm Stadium site to the Task Force on January 16, 2003.

The Mission Valley and Serra Mesa community planning groups attended Task Force meetings to share their ideas and concerns regarding the site. Other interested organizations, including the San Diego Regional Chamber of Commerce and the San Diego Convention and Visitors Bureau, presented their thoughts on the benefit of having a home football team in San Diego and the team's contributions. The presentations and documents received by the Task Force addressed a range of topics to allow the members to explore the issues, ask questions, and learn about the stadium. Additionally, the information heard by the Task Force allowed members to learn about the Chargers football team and their position regarding a new stadium, and understand community concerns regarding the stadium site and any new development.

From the beginning, every effort was made to facilitate broad public involvement in the Task Force process. The Task Force conducted its meetings during the evening hours, several meetings were broadcast live and all meetings were video-taped for the City's cable access television channel. Each meeting was replayed multiple times to ensure every opportunity for public review. Meetings were held in various locations around the City, at least one in each City Council district, to provide the greatest level of access to the public. The meetings were conducted in accordance with the Brown Act, thus were noticed and provided for a period of public testimony. In addition to regular public comment periods, groups of citizens were encouraged to give prepared presentations to the Task Force. A final public hearing was conducted at the end of the process to solicit input from the public with regard specifically to the recommendations the Task Force was developing for their final report. A web page was established on the City's web site to provide easy access to meeting information, presentations and other documents of the Task Force, and to gather input from the public. Several non-scientific polls were conducted via the web page and an e-mail address allowed citizens to send information directly to the Task Force. In addition, members of the media followed the process closely, attending many meetings and reporting on much of the activity. The Task Force conducted its work in a very open and public manner.

Task Force Committees

As the Task Force process got underway, it became clear that there were several subject areas requiring specific attention. To concentrate on these topics, three Task Force committees were created. The committees included: Contracts, Facilities & Redevelopment, and Finance. Each committee met frequently, 36 times between them, on an as-needed basis to gather data and research the interest areas thoroughly. (Appendix D contains a list of committee meetings)

The Contracts Committee was composed of the five Task Force members with legal backgrounds including David Watson, chair; Len Simon, co-chair; Tom Fat; Bruce Henderson; and Karen Heumann. The committee's mission was to analyze the existing Chargers' contract and amendment, and any agreements or documents related to the Super Bowl. Their tasks included analyzing the contract as a whole, including the ticket guarantee, amounts the City has paid, rent payments, net revenue less maintenance and operating costs, and identifying how enforcing the contract could impact the City budget. Additionally, the committee reviewed the trigger events for possible Chargers renegotiation, relocation, the rights of first refusal, and other rights and responsibilities of both parties. Since one possible task force recommendation was to enforce the existing contract, the Contracts Committee identified actions the City could take to make the existing terms less onerous.

Following review of all of the above, the committee prepared a report for the City Council, originally submitted in November 2002, to address the issues and provide advance information to be available at the start of the trigger period, on December 1, 2002. The complete Contracts Committee report issued previously, with slight revision, is included below in the Contracts Committee section. Once the contract report was concluded, these committee members joined the other two committees to assist with their efforts.

The Facilities and Redevelopment Committee was initially composed of six members including Nikki Clay, chair; Joseph Martinez, co-chair; Cassandra Clady; Bill Largent; Patti Roscoe; and Jeff Smith. Subsequently, Pepper Coffey, Tom Fat, Bruce Henderson, and Karen Heumann joined the group following the conclusion of the Contracts Committee's work. This committee was tasked with examining Qualcomm Stadium's current operations, finances and condition; determining whether we really need a new stadium or if Qualcomm could be upgraded; analyzing the development opportunities and constraints of the current site; and analyzing development that would create a maximum revenue stream, but also consider environmental issues. In response, the committee explored the ideas of renovating the existing stadium and developing a new stadium. The members heard testimony from those knowledgeable about the Qualcomm Stadium site, development issues, environmental concerns, and transportation issues, and took a more detailed tour of the stadium. This committee received presentations from local community groups and current stadium tenants, reviewed potential alternate sites, and explored the idea of renovating the current stadium. Results of this committee's efforts are contained under the Facilities & Redevelopment Committee section of this report.

The members of the third committee, the Finance Committee, included Ron Saathoff, chair; Geoff Patnoe; Tim Considine; and Pepper Coffey. Len Simon and Tom Fat joined the committee following the conclusion of the Contracts Committee's work. The direction initially given to Finance was to evaluate the Chargers' financial condition and determine whether the Chargers need a new stadium to maintain financial viability; examine the economic contribution the Chargers make to the City; begin exploring possible financing options for a new stadium, including learning what's been done in other cities; and finally, explore how the County may participate in any future development on the Qualcomm Stadium site.

Members of the Finance Committee spent a great deal of time working to address their mission. They explored the above issues by reviewing the limited financial information provided by the Chargers and various economic impact reports made available by the NFL and the sports consulting firm of Barrett Sports Group (BSG); gathering information on various financial resources utilized by other cities, City financing options and funding mechanisms, primarily through information provided by BSG, City staff, Centre City Development Corporation (CCDC) and the consulting firm of Keyser Marston Associates, Inc. Additionally, the committee reviewed the operational costs associated with Qualcomm Stadium and the funding sources used to cover expenses, looked into deferred maintenance costs, and analyzed the costs other cities have incurred to get a team back once allowed to leave town. The conclusions and several financing principles developed by this committee are included in the Finance Committee section that follows.

Consultant Assistance

Two consulting firms were retained to provide assistance to the Task Force. Keyser Marston was utilized to review, address and provide context to the development proposals and development questions that were raised by Task Force members. BSG was hired by the Task Force to perform several studies and provide information to the Task Force throughout its process. Reports prepared by BSG covered the topics of due diligence, stadium development case studies, the NFL's G-3 Program, NFL relocation information, a market analysis, stadium financial analysis, financing alternatives, and an economic impact analysis of the Chargers on the San Diego community. In addition, BSG reviewed the development proposals submitted by the Sports Council and the Chargers, and worked to assist the Task Force on issues that arose as necessary.

Several of the BSG reports provided reference information for the Task Force members' use in understanding some of the fundamental aspects of the new stadium trend, circumstances in other cities around the country with regard to facilities and new stadium financing, and basics regarding the NFL's role and operations. This base information was captured in four of the reports prepared and presented early in the process. These reports are identified and highlights are reflected below, with full reports available in the City Clerk's office. Findings from the other BSG reports are reflected in later sections of this report.

<u>Preliminary Due Diligence Report</u>

The Preliminary Due Diligence Report presented by BSG was the first report provided to the Task Force members to get them oriented on the 32 franchises in the NFL and the stadiums the teams occupy. The introductory comments explain some of the reasons for the increase in the number of new stadiums developed during the last 10-15 years. The report then outlines the basic characteristics of each stadium. The data includes the age, seating capacities, the composition of seating types, the amount of parking, and the structure of the facilities.

The report further addresses premium seating, including luxury suites and club seats, which are an increasingly important revenue source for many professional sports franchises and venues. Personal Seat License (PSL) and Naming Rights revenues are explained, including how these revenues work, which teams use them, and potential issues associated with generating monies from these sources. Additionally, potential issues associated with selling naming rights, and the factors influencing the value of naming rights are outlined. Other valuable information contained in the report includes overviews of average attendance, average ticket price, ticket tax/surcharges, historical NFL television contracts, the ranking of teams in terms of operating profit, and historical NFL expansion fees paid by other teams.

The report allowed the Task Force to develop a background understanding and gain perspective on what is going on around the NFL.

NFL Stadium Development Case Studies Report

The second background report prepared by BSG was the NFL Stadium Development Case Studies Report which provided additional detail regarding NFL stadium development, sources and uses of funds for the construction, and specific lease terms. The deal structures and lease terms of 21 new stadiums were provided to the Task Force in a summary format for illustrative purposes. Factors that may provide an indication of the potential of a franchise to generate revenues in a specific market, and significant costs of occupancy were described. This information provided the Task Force with a broader background understanding of the way other stadiums around the country were funded, thus possibilities for funding a potential new stadium in San Diego.

NFL Relocation Overview Report

Because the question of whether the Chargers would be able to move to another city has been of concern, BSG provided an NFL Relocation Overview Report. This report covers NFL relocation policies and procedures, as reflected in the NFL Constitution and Bylaws, potential relocation markets based upon demographics, and other teams that would be potential relocation candidates for those markets given the particular circumstances in which they are currently operating.

G-3 Program Report

The fourth and final report that provided background facts for the Task Force's use is the G-3 Program Report. The G-3 Program is the NFL's program that provides loans to franchises in support of the development of new or renovated stadiums. The amount of a G-3 loan is based on the private contribution amount going into the project and the size of the market in which a team operates. The policies around which the G-3 Program is structured, including the loan limits based upon whether a team is located within a large or a small market, the project costs that are eligible to be covered by G-3 loans, the size of the private contribution, and a listing of the approved projects that have received loans are reflected in this report.

Other Information

San Diego Union Tribune Poll

A June 15, 2002, San Diego Union Tribune (UT) article shared results of a poll of UT readers. According to the article, the poll conducted the previous week indicated that three-quarters of county residents believe the Chargers are somewhat or very important to San Diego, but only 22 percent said they would support spending public money to keep the team here.

Sixty-one percent of the 452 people surveyed were somewhat or strongly opposed to using public funds to keep the Chargers from leaving. And, 53 percent were somewhat or strongly opposed to giving the team public land to keep it here.

Though this poll was responded to by a small number of readers, the results were deemed significant and likely to be indicative of the feelings of a much larger group of San Diegans by some Task Force members. The results were taken into consideration during development of a final recommendation as the mission statement originally outlined by the Mayor indicated that the Task Force recommendation should be something "that the public will support".

Monopoly Power in the NFL:

Testimony presented to the Task Force and documents reviewed by Task Force members indicated that a principal feature of the NFL is its apparent monopoly power in the market for professional football teams. Only 32 teams exist in the United States, each of which is situated in a location which supports its own franchise. This principle dominates the relationship between municipalities and team owners.

Through this power bestowed upon the NFL through court decisions and the U.S. Congress, the NFL is able to control the number of teams that exist in the league, restrict the number of teams in any market including the country's largest urban areas, and adopt guidelines with regard to revenue sharing between large, and small, market teams.

Mark S. Rosentraub, points out in his book *Major League Losers* that "it is time for cities, their taxpayers, and their civic leaders to recognize the leagues for what they are. Leagues are cartels that ensure profits and salaries at the public's expense."

Many experts believe that the United States could support 40-50 NFL teams. By creating an artificial scarcity in supply and encouraging demand to keep franchise values high, the NFL is able to assure team owners of continued competition from host cities. Such an imbalance all but guarantees that owners from smaller markets, such as San Diego, will demand extra financial assistance from taxpayers by claiming to be at an economic disadvantage relative to the other owners and threatening to move. Due to the revenue sharing guidelines now in place, smaller market teams, while sharing equally in the NFL's very lucrative television contracts, are unable to earn the same income from luxury seating, naming rights, in-stadium advertising, the sale of food and beverages, and parking fees. The difference in earning potential all but guarantees that owners from smaller markets, such as San Diego, will demand subsidies from their host cities to reduce these income differences.

Expert information provided to the Task Force suggested that professional sports monopolies exist in the United States because of Congressional approval of sports' overwhelming popularity. These experts further suggested that unless disgruntled voters put pressure on political leaders to begin regulating sports monopolies, they will continue to thrive at the public's expense.

CONTRACTS COMMITTEE

Committee Members

Task Force Member	*Professional Background*
David Watson (Chairperson)	Hecht, Solberg, Robinson, Goldberg & Bagley
Len Simon (Co-chairperson)	Milberg, Weiss, Bershad, Hynes & Lerach
Tom Fat	Fat City, Inc.
Bruce Henderson	Henderson & Henderson
Karen Heumann	Hull McGuire PC

Mission Statement

The assigned tasks for the Contracts Committee of the Citizens' Task Force on Chargers issues were to:

1. Analyze the existing Chargers' contract and amendment, and any agreements or documents related to the Super Bowl.

2. Analyze the contract as a whole including the ticket guarantee, amounts the City has paid, rent payments, net revenue less maintenance and operating costs, and how this impacts the City budget.

3. Review the trigger events for possible Chargers relocation, the right of first refusal, and other rights and responsibilities of the parties.

4. Since one possible task force recommendation is to enforce the existing contract, devise recommendations on any unilateral actions the City could take to make the existing terms less onerous, if possible.

Introduction

The Contracts Committee met five times to address the above, following which the committee prepared a report for the City Council. The report was submitted in November 2002, to provide advanced information to be available at the start of the trigger period on December 1, 2002. The report issued previously, with slight revision, follows.

CITIZENS' TASK FORCE ON CHARGERS ISSUES

Please note: This report was originally approved by the Task Force and submitted to the City Council in November 2002. Minor additions were approved in February 2003. All attachments referenced in the Contracts Committee Report are available in the Office of the City Clerk.

FINAL REPORT B CONTRACTS COMMITTEE

DISCLAIMER: THIS REPORT REPRESENTS SOLELY THE VIEWS OF THE TASK FORCE ON CHARGERS ISSUES. IT DOES NOT REFLECT THE VIEWS OF THE MAYOR, THE CITY COUNCIL, THE CITY ATTORNEY, OR ANY OTHER PERSON OR ENTITY.

Among the tasks which the Mayor and City Council have asked this Task Force to undertake, there are two which are addressed in part by the work of the Contracts Committee:

$ Determine all things that could be done to keep the Chargers in San Diego in a fiscally responsible way that the public will support;

$ Recommend what the City should do, if anything, to keep the Chargers in San Diego in a fiscally responsible way that the public will support.

Set out below are our views on the current contract between the City and the Chargers, and how that contract affects these issues. We make this report on the basis of publicly available information, our own analysis, and the helpful cooperation of the City Attorney, the City Manager, and our Sports Consultant. However, we wish to emphasize that we are not counsel to the City, and we do not have access to privileged documents and information which the City Attorney has properly kept out of our public process (and thus out of the hands of the Chargers). Nor have we undertaken the comprehensive legal research which one would undertake were one to litigate a dispute over this contract on behalf of the City. Thus, we do not wish to, and cannot, "lawyer" the matter for the City. Rather, we undertake the task we were given B to identify and preview the issues for the Mayor and City Council based upon the publicly available data and our collective knowledge and wisdom.

I. SUMMARY OF CONCLUSIONS

$ The Chargers have a contract with the City obligating them to play at Qualcomm Stadium until 2020, and the most direct way to keep the Chargers in town may be to enforce that contract. However, that contract has a clause which permits renegotiation in certain circumstances, and if good faith renegotiation is unsuccessful, early termination if the Chargers obtain an offer from another city which San Diego does not match.

$ It is unclear whether the Chargers can trigger a renegotiation this year, but if they do, the City may be able to block any effort to terminate the contract with an expenditure of several million dollars.

$ If the Chargers properly trigger their renegotiation rights, and good faith renegotiation does not lead to an agreement, the Chargers can look for a new home in the succeeding 18 months, and if they find one, need only give the City a narrow opportunity to match the offer from the other city. (If the Chargers leave, they must repay 60% of the City's remaining debt on the stadium renovations.)

$ The ticket guarantee is providing the Chargers with the equivalent of free rent through the second home game of 2007, and the City is currently losing about $10 million per year on the Stadium. For that reason, a new arrangement with the Chargers for a new or renovated stadium which relieves the City of this financial drain could, depending on terms, be more attractive than enforcing the existing contract against the Chargers.

II. INTRODUCTION

The Chargers have played football in San Diego since 1961. They are under contract with the City to play their games at Qualcomm Stadium until 2020. However, the contract has clauses which may permit the Chargers to renegotiate that contract, and if renegotiation fails, potentially to terminate that contract as early as 2004. The Chargers have made public statements suggesting that they (a) could have "triggered" renegotiating last year, (b) will trigger it this year, (c) need a new stadium well before 2020 to ensure their long term economic viability and competitiveness, and (d) may leave San Diego if the City is unwilling to assist in building a new stadium for them.

In evaluating the situation facing the City, the first question to look at is the current contract with the Chargers. As noted above, the contract obligates the Chargers to play their games in Qualcomm Stadium until the year 2020, but has provisions which could permit the Chargers to end their contractual obligation to play at Qualcomm as early as 2004.

If the Chargers could terminate their contractual relationship, all that would stand in the way of their departure would be the availability of an alternative site and approval of the National Football League. As described below, there are other cities interested in an NFL team, although their viability as a relocation prospect is hard to gauge. In terms of NFL approval, although San Diego could certainly object to the movement of the Chargers to another city, the history of NFL decisions on this subject is not encouraging. Baltimore, Cleveland and Houston have lost long-time football teams in recent years (although each later got another team, after building a new stadium to host that team). Los Angeles lost two teams, one of long standing, and has yet to get one back. Indeed, Los Angeles is one of the places the Chargers are rumored to be eyeing, although Al Davis (of the Oakland Raiders) has filed litigation claiming exclusive rights to the Los Angeles territory. Thus if the contract can be terminated, the Chargers may well leave.

- If the Chargers cannot escape the Contract until 2020, although the City should of course listen to any reasonable proposal from the Chargers regarding a new or renovated stadium, the City would be well within its contract rights (and municipal fiscal restraint) to suggest that the Chargers wait a decade or more for their new stadium or pay for their own new facility. Qualcomm Stadium might become one of the oldest in the NFL, but that is always the case somewhere. The Chargers did sign a contract which obligated the City to spend $78 million[1] on renovations (and a new practice facility) and enter into a costly ticket guarantee in return for a commitment to stay until 2020. Modest changes might be negotiated (*e.g.*, improved locker rooms) as a show of good faith, or a creative win-win redevelopment plan (with little or no net public expenditures) might be crafted, but otherwise the City would be within its rights to ask the Chargers to live with their bargain (which benefits the team in many ways) or build their own stadium. Of course, since the City is losing approximately $10 million per year at the stadium, a win-win new stadium/redevelopment deal might be more attractive than enforcing the existing contract. (When the Padres move out, stadium losses are expected to drop substantially, and when the ticket guarantee runs out after two games in 2007,

[1] Renovations cost $66 million, the practice facility $12 million, another $6 million of "in kind" investment was made by the concessionaire, and $8 million was for reserves and miscellaneous items, totaling $92 million. We use the figure of $78 million for convenience.

the situation will get even more positive.)

$ By contrast, if the Chargers could lawfully terminate their contract with the City in the short term, the situation facing the City is quite different. With the right to terminate, the Chargers could seek a new or substantially renovated stadium with significant public funding as an incentive to stay, and could (in the "window" permitted by the contract) negotiate with other cities for competitive offers. In this scenario, the City could be faced with the stark choice of spending many millions of dollars or risking the loss of professional football. The magnitude of the risk is hard to gauge, as it depends on the true intent of the Chargers and the availability of an attractive alternative city, but the risk is there. Moreover, if the Chargers leave and the City tries to obtain another team, history suggests that the price will go up B obtaining a team is usually more expensive than keeping one.

Thus, this issue of leverage may well drive B and will certainly color B the analysis here. A binding contract may suggest to the City that no significant expenditures ought to be made at the request of the Chargers for many years, unless there is a clear net economic benefit to the City. A contract terminable by the Chargers may suggest a more flexible approach and force the City to deal with the questions of how valuable are the Chargers to the City, and how much the City should spend (if anything) to keep them.

* * *

This is, of course, a somewhat oversimplified introduction to the matter. It does not take into account other financial issues such as the ticket guarantee, which could become even more expensive if the Chargers play a "lame duck" season in San Diego, and it does not factor in the Chargers' obligation to repay the City for a portion of the debt service for the stadium renovations if they terminate the contract. It also does not take into account the benefits of the Super Bowl. Nevertheless, we believe that whether or not the Chargers can terminate the contract in the near future is a crucial threshold issue in this analysis, and thus we begin there.

III. OVERVIEW OF THE RELEVANT CONTRACT

In 1988, the Chargers and the City amended the pre-existing contract and provided for the Chargers to use what was then called Jack Murphy Stadium from 1988 to 2003. The contract provided for the Chargers to pay rent to the City, and had no ticket guarantee or renegotiation clause.

In 1994, discussions began over a new and extended contract between the City and the Chargers. We have heard, but cannot confirm, that the Chargers raised the issue of a new stadium, but that was rejected by the City. Discussions then focused on improvements and expansion of the stadium to accommodate both the Chargers' desires for a larger capacity and certain improvements (including luxury suites and club seating) and also to keep the Stadium in contention for future Super Bowls, which required more seats. (The Super Bowl was first played in San Diego in 1988; it returned in 1998, and is being played here again in January 2003; there are no guarantees that San Diego would obtain another Super Bowl in any particular year with a new stadium, but it is unlikely it will obtain another one without a new or improved stadium.)

These discussions led, in 1995, to a new contract being executed and approved by the City Council and the Chargers.[2] It provided for, among many other features, (a) expansion and various improvements in the stadium; (b) the "ticket guarantee"; and (c) an expiration date of 2020, but with

[2] The 1995 Contract is attached as Exhibit A.

a "trigger" clause pursuant to which the Chargers may in some circumstances demand renegotiation, and possibly terminate the Contract.

Litigation was filed challenging the 1995 contract. Ultimately, revisions to the 1995 agreement were agreed to in 1997, with the purchase of naming rights to the stadium by Qualcomm Inc. providing the funds to solve certain of the financial challenges facing the deal.[3]

Thus, the contract we are dealing with today is the 1995 agreement as modified in 1997 (referred to hereafter as "the Contract"). It would be fair to say - - indeed, an understatement - - that the 1995-97 Contract has not worked out well for the City. The ticket guarantee has cost the City millions of dollars. The trigger/renegotiation clause threatens to cost the City more, and possibly permit the Chargers to leave town. And notwithstanding contract language suggesting that the renovations would bring Qualcomm up to state of the art,[4] the NFL, the Chargers, and certain professional architects and contractors assert that Qualcomm Stadium is out of date already, and that single-purpose football-only stadiums are far superior to Qualcomm. Thus, with the benefit of hindsight, the Contract is highly unfortunate and the $78 million renovation and practice facility may have been uneconomic.

Of course, the City must live up to its lawful contractual obligations, and we will not dwell on criticizing those who entered the 1995-97 Contract. Whether portions of the Contract were the result of poor negotiations, or whether the Contract was a reasonable idea which in hindsight has not worked out, it is the Contract under which we must operate, and it is the language of that Contract

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[3] The 1997 Contract Revisions are attached as Exhibit B.

[4] The actual contract language, Sec. 3(a)(i)(3), provides that the modified stadium should "incorporate a level of design and material used at the newest and best constructed stadiums where NFL football is being played as of the date construction ... is commenced."

and the law of California which will govern the leverage issue identified above.[5]

IV. MECHANICS OF THE "TRIGGER" CLAUSE

For purposes of analyzing the leverage of the Chargers as against the City, the so-called "trigger" clause is crucial. Section 31 of the Contract, entitled "Renegotiation Rights," provides that if a certain financial ratio called a "triggering event" occurs, the Chargers may send a notice to the City demanding renegotiation of the contract. The details are as follows:

* * *

A triggering event occurs when, on December 1 of any year, the sum of:

1. the actual "Team Salary" (as such terms are defined in Article XXIV, Section 6 of the 1993 Collective Bargaining Agreement except as calculated on a cash basis) of the Chargers for such year; plus

2. the total actual benefit payments provided by the Chargers to its players for such year; plus

3. the total actual benefit payments provided by the NFL to the Chargers' players for such year;

exceeds the "Team Salary Cap" for that year.

Relevant definitions in the agreement are as follows:

"'Team Salary Cap' shall mean for any year, on a cash basis, 75% of the Defined Gross

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5 Our reference to the law of California is meant to suggest that doctrines such as unconscionability, breach of the covenant of good faith and fair dealing, and other doctrines, may permit a court to interpret the contract more favorably to the City than its literal language.

Revenues for such year, divided by the number of teams playing in the NFL during such year."

"'Defined Gross Revenues' shall mean the aggregate revenues received or to be received on an accrual basis, for or with respect to any 'League Year' (as such term is defined in Article I, Section 1 of the 1993 CBA), during the term of this Agreement by the NFL and all NFL Teams (and their designees), from the following sources only: (i) regular season, pre-season, and post-season gate receipts (net of admission taxes, and surcharges paid to a stadium or municipal authorities which are deducted for purposes of calculating gate receipts subject to revenue sharing), including ticket revenue from 'luxury boxes,' suites and premium seating subject to gate receipt sharing among NFL Teams; and (ii) proceeds from the sale, license, or other conveyance of the right to broadcast for exhibit NFL pre-season, regular season, and play-off games on network and national cable television (which by way of example only, would currently include all revenues generated from NFL television contracts with FOX, NBC, ABC, TNT and ESPN). For the purposes of this Agreement only, Defined Gross Revenues does not include any proceeds from the sale, license, or conveyance of the right to broadcast or exhibit NFL pre-seasons, regular seasons, and play-off games to and on any other source, including, without limitation, local television, pay television, satellite encryption, international broadcasts, radio, or any other means of distribution."[6]

* * *

No one will know with certainty whether the Chargers can or will trigger until at least December 1, when they can send a trigger notice, and the City can in turn ask for proof that the trigger has been met. The information available to us thus far is as follows. The Chargers have

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6 It is interesting to note that "Defined Gross Revenues" as defined in this contract are different from the same term as defined in the NFL Collective Bargaining Agreement.

indicated informally that they could have triggered last year and will be able to trigger this year by several million dollars. Prof. Rosentraub testified before the Task Force that, according to the best figures available to him (from the Players Union) the Chargers cannot trigger this year.[7]

A curious overlay to this issue is that the trigger has been described by the Chargers as requiring "severe financial hardship,"[8] and this language has been picked up by the public and the press, but we do not believe that a team triggering under this contract term is necessarily in severe financial hardship. However, it is unclear whether a court would engraft that interpretation upon the mathematical formula provided by the trigger clause. Ambiguities in the trigger clause might be resolved consistently with a "hardship" standard, if such ambiguities were found.

Further elements of Section 31 relate to timing and procedure for a "trigger":

1. The Chargers cannot trigger and demand renegotiation every year, but rather, can do so only once between 2000-2002, once between 2003 and 2006, once between 2007 and 2010, once between 2011 and 2014, and once between 2015 and 2018. Because the Chargers have not demanded negotiation in 2000 or 2001, they can do it this year (2002), and again next year or in one of the succeeding three years.

2. If the Chargers wish to trigger renegotiation, they must do so in the 60 days after the December 1 on which the triggering event exists. Thus, if they want to trigger this season, they must send their renegotiation demand letter between December 1, 2002 and January 29, 2003.

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7 Professor Rosentraub's analysis is attached as Exhibit C.

8 For example, attached hereto as Exhibit D is a letter from Dean Spanos to season ticket holders containing this language. We believe this letter was written in January 1997 but have not confirmed that date. Ms. Jeanne Bonk of the Chargers made a virtually identical statement in a letter to the editor in January 1997.

3. If the Chargers trigger renegotiation, the Contract provides for a ninety day period in which the City and the Chargers must negotiate in good faith "to offset the impact on the Chargers of the Triggering Event." The meaning of this language is crucial, and is discussed below.

4. If the City and the Chargers have a successful negotiation, any new agreement would modify the 1995-97 contract, at least until such time as the Chargers "triggered" renegotiation again.

5. If the City and the Chargers have an unsuccessful negotiation, the contract provides that the Chargers will then have an 18-month period in which they may "shop" the team to other cities. (The Contract actually provides that the Chargers may begin to shop the team immediately upon sending the renegotiation demand, but in practical effect, unless negotiations between the City and the team are unsuccessful, the Chargers cannot terminate the agreement and thus cannot move.)

6. If the Chargers sign a letter of intent to move to another City during that 18 month period, the City has another 90 day period in which to match "the financial and overall economic terms of the other City." It is important to keep these two 90 day periods separate B they have very different purposes.

7. If a letter of intent from another city is properly presented, and the City does not "match" within the 90 day period, the Chargers may terminate the contract. If the Chargers do so, they must pay to the City 60% of the debt remaining on the expansion and improvement of the Stadium, minus certain credits. In no event can the Chargers terminate before February 2004.

Thus, if the Chargers legitimately "trigger," the City has two opportunities to avoid a contract termination B the "renegotiation" period and the "matching" period.

V. INTERPRETATION AND APPLICATION OF THE "TRIGGER" CLAUSE

A form of "worst case analysis" is to take the Chargers at their word, and to assume that they will send a trigger notice this year, claiming that they have met the trigger by several million dollars. Upon receipt of such a trigger letter, the City will have several options, none mutually exclusive of one another:

1. It could demand backup for, or could challenge, whether the Chargers have in fact triggered, and by what amount. This would seem to be necessary due diligence in any circumstance.[9]

2. The City could also question the meaning of the trigger clause itself. Many feel that the clause is unfair and one-sided, and permits the Chargers to trigger whenever they wish, without regard to any financial hardship, making the Chargers' commitment to play at Qualcomm until 2020 illusory. This is a complex and difficult legal issue, appropriate for analysis by counsel to the City, but it must be kept in mind that both the City and the Chargers were sophisticated contracting entities with legal counsel, and for either party to challenge the contract will be difficult. As a Chargers officer has said in referring to the ticket guarantee, "A deal is a deal." This approach may help the City in places and hurt the City elsewhere, but it is an approach likely to be favored by the courts absent strong legal justification to the contrary.

3. ***The 90 day good faith negotiation period is very important***. Although the press and those who objected to the 1995-97 contract have referred to Section 31 as an "escape clause," and

suggest that the Chargers will be able to leave town if they trigger, we do not read the contract that way. The contract provides for a 90 day period in which the parties are to negotiate in good faith "***to offset the impact on the Chargers of the Triggering Event***." Thus, as an example, if the Chargers "trigger" by $5 million (meaning that the sum of the three specified figures is $5 million more than the "Team Salary Cap") it would appear that an offer by the City to pay the Chargers $5 million would fully "offset the impact on the Chargers of the Triggering Event." (Arguments might be constructed by the City in support of a lower number, and possibly the Chargers will argue for a higher number, with a more aggressive interpretation of "offset," but at this stage we are comfortable that a $5 million offer would suffice.) Should the Chargers reject such an offer and instead demand something more, such as a new stadium, that does not appear to us to be good faith negotiation over an "offset" to the impact of the triggering event. A court ultimately could force the Chargers to accept such an offer, and more important block them from shopping the team or leaving town in the face of such an offer. To put it another way, if the Chargers decline an offer of $5 million in these circumstances, a court could rule that the only reason the renegotiation failed was the Chargers' bad faith, and thus the Chargers do not get to benefit (by shopping the team) from their lack of good faith. Thus an offer of the maximum "offset" at some point during the negotiation period is an

[9] Mr. Bruce Henderson, a member of this Committee, has circulated three letters containing suggestions for questions to be asked and data to be gathered in the course of "auditing" a trigger letter. The letters are attached hereto as Exhibits E1 through E3. We urge the City Attorney to review these letters and carefully consider the suggestions.

important strategy by which the City could try to preempt any move to another City.[10]

Of course, the City may not be willing to pay this sum (whether it is $5 million or some other figure) and the Chargers may contest this reading of the agreement, but this analysis suggests that the widely held view that the trigger is an escape clause is too pessimistic. If our legal analysis is correct, and even if the Chargers are right on the trigger figures, the City could solve its "Charger problem" for this year with an offer of the trigger amount.

Although we recognize that such a payment could be unpopular given the ticket guarantee and other circumstances, this might be a prudent step given the alternatives B a demand for a new stadium, the potential for a lame duck team generating a huge ticket guarantee obligation, etc. The Mayor and City Council must prepare themselves to deal promptly and professionally with this "offset" issue in the 90 day renegotiation period, and arm their negotiators with authority to move forward promptly and efficiently. Expert accountants, sports consultants, and others may need to be retained to assure that this important matter is handled expertly.

Unfortunately, even if the Chargers trigger this year, they can trigger again once in the next four years. Would the City pay another seven figure amount at that time? Could it be more? Theoretically, the City may have to "offset" the trigger five times in 18 years. Again, this sounds

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10 Our analysis assumes that an effort by the Chargers to leave town in a manner contrary to their contract would be blocked by a Court. It is possible that a court would decline to grant an injunction, awarding the City damages instead for breach of contract, but the most recent case on the subject, involving the proposed "contraction" of the Minnesota Twins, supports issuance of an injunction.

expensive, but it may pale in comparison to the alternative cost of keeping the Chargers by building or renovating a stadium, or obtaining another team after the Chargers leave. This is essentially a business decision relating to how valuable it is to have NFL football in San Diego, and whether the City will spend additional public money to keep the Chargers. It is a calculated risk, because we do not know (a) whether other cities will in fact woo the Chargers, and (b) whether the Chargers will be able to trigger every four years, and at what monetary level. But we underscore that offsetting the trigger may well be the cheapest way to keep the Chargers in town, short term and long term.

4. If an "offset" deal cannot be made with (or judicially imposed upon) the Chargers, Section 31 does then become an escape clause. The Chargers will be free to shop themselves to other cities for 18 months, with San Diego having a right to match any letter of intent entered by the Chargers with another city. To keep the Chargers from leaving, the City will have to "match the financial and overall economic terms of the proposed third party transaction" in another 90 day window. Our view is that, if the Chargers get an attractive offer from another City, this "match" window will likely be of much less benefit to the City than the prior "renegotiation" period. If, for example, the Chargers provide a letter of intent offering the building of a new stadium with substantial public financing, it will be very challenging for San Diego to be in a position to match in 90 days. A large public expenditure for a football stadium would likely require substantial City Council discussion and a referendum, and the prospect of placing the matter on the ballot and obtaining a favorable result in 90 days is nil. Whether the City could match through City Council action, subject to approval through a referendum, is not clear, but even that would take quite a bit of City Council analysis and debate on such a controversial matter. Moreover, the history of relocations

suggests that a new city hungry for a team pays "top dollar" (new stadium with substantial public money) and the prospect of getting San Diego to "match" such a "sweetheart" offer at all, let alone quickly, is slim.[11]

Thus, although we place great value on the City's rights in the first renegotiation period (the "offset" negotiation), by contrast we believe that this subsequent "match" period will be problematic for the City. The proverbial horse will be out of the barn. Only by keeping the "horse" in the "barn" (through the offset negotiation) can one count on still having the horse a season or two later.

VI. THE TICKET GUARANTEE

The ticket guarantee provides that, for every game from the beginning of the contract through the second home game of 2007, if the Chargers do not sell 60,000 general admission tickets, the City will pay the shortfall, or credit it against the rent. "General admission tickets" is a defined term which excludes premium seating. The contract also provides that the San Diego International Sports Council will assist in marketing Chargers tickets.

Because of the poor performance of the team in the last several years, and the difficulties in selling exhibition game tickets in any season, the City has paid substantial amounts on the ticket guarantee, or purchased large quantities of tickets in lieu of paying the guarantee.[12]

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11 If Los Angeles is the city involved, public statements suggest that a stadium there might be privately financed, presenting a somewhat different situation.

12 If there is going to be a shortfall, it is advantageous to the City to buy the tickets to avoid the shortfall, rather than leave them unsold, because the City then gets back 10% of the ticket sales as additional rent plus $2 per ticket as a surcharge. A further wrinkle is that if the City buys the tickets 72 hours before the game and creates a "sellout," the game is on local TV, but if the City delayed its purchases, the Chargers might sell more tickets when word of the TV blackout hit the press. A consistent pattern of late purchases might generate more advance sales as well. How this would play with the populace is unclear.

The rent payments and ticket guarantee losses for each year of the contract are as follows:

CHARGERS RENT/TICKET GUARANTEE INFORMATION[13]

YEAR (season)	GROSS RENT	TICKETS PURCHASED/ RENT CREDITS	NET RENT
1997	$5.0 million	$1.4 million	$3.6 million
1998	$5.5 million	$3.9 million	$1.6 million
1999	$5.7 million	$6.1 million	($.4 million)
2000	$6.25 million	$7.97 million	($1.72 million)
2001	$6.4 million	$5.99 million	$0.41 million
2002	$6.9 million (est.)	$6.11 million	$0.79 million
TOTAL	**$35.75 million**	**$31.47 million**	**$4.28 million**

The ticket guarantee obviously has been quite unfortunate for the City. The Chargers have gotten the Stadium essentially rent free, and the debt service on the bonds is being made without benefit of any significant net rent payments. The City is losing approximately $10 million per year in running the Stadium. Further, the ticket guarantee has perverse incentives B no specific provisions requiring the Chargers to market the team at any particular level, no limits on ticket price increases (which have occurred).[14]

Several observations can be made about the ticket guarantee.

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13 These figures include only the rent and the ticket guarantee; other items such as debt service are not included.

14 Further background on the ticket guarantee is contained in the report of the San Diego County Grand Jury, attached hereto as Ex. F, and the City's response thereto, attached hereto as Ex. G.

First, it is costing the City a lot of money, and efforts should be made to negotiate our way out of it.

Second, the City should evaluate whether the Chargers are meeting their contractual obligations to use best efforts to ensure the maximum occupancy of the stadium as provided by Section 7 of the Contract.

Third, it should not be repeated in any future contract.

Fourth, it is likely to continue to make Qualcomm Stadium a losing proposition into 2007, providing some incentive to reach agreement with the Chargers on a different agreement, a new or renovated stadium, or any other solution to this cash drain.

Fifth, the ticket guarantee will end in 2007, and if the Chargers remain in San Diego through 2020, the profitability of the contract should change markedly for that period of time.

Finally, the ticket guarantee payments have the potential to become truly oppressive in a "lame duck" season. Although the workings of Section 31(b) are not totally clear, it is possible that the Chargers will play a season or more in Qualcomm Stadium after they have announced a move to another city, or while they are attempting to move or in litigation concerning such a move. Attendance may drop precipitously, as it did in Houston, where attendance fell by 50% after the announced move to Tennessee. In those circumstances, payments under the ticket guarantee could skyrocket. Of course, the Chargers "best efforts" obligations might be interpreted to require a price reduction in a lame duck season, increasing attendance and reducing the exposure.

We say the payments "could" skyrocket because the ticket guarantee can be satisfied through cash payment or a "rent credit." Such a credit would appear to top out at the total of the rent. That is, in a year in which the Chargers are to pay $6 million in rent, their maximum rent credit would be $6 million, meaning the situation cannot get much worse than it currently is. However, a different interpretation would permit the "credit" to wipe out the rent and create a balance in favor of the Chargers. This latter interpretation creates the doomsday scenario under which a "crowd" of 30,000 (as in Houston) might include 25,000 general admission sales, leaving a shortfall of 35,000 under the ticket guarantee, at an average price of $50, for a city payment of $1.75 million for just one game. Multiplied by eight regular season and two pre-season games, the numbers could be staggering.

VII. POSSIBLE LITIGATION

We would be remiss if we did not identify the various points at which litigation might ensue, and its potential impact. There was litigation over the 1995-97 Chargers-City Contract, there was litigation over the new Ballpark for the Padres, there was litigation when the Raiders moved from Oakland to L.A., and again when they moved back, and there was litigation when the Minnesota Twins recently were threatened with "contraction." These are but a few examples. A city faced with losing its team may well sue; an owner denied the right to move may well sue; and citizens who object to expenditures on a new stadium or renovation may sue.

We believe that an effort by the Chargers to leave town without a lawful cancellation of their contractual obligations could be met with litigation seeking an injunction, with a reasonable chance of success, by the City. We also believe that litigation by the City seeking to block a move may, even without an injunction, make it more difficult for the Chargers to make a deal with another city, because of the "cloud" placed over the move. Finally, that NFL relocation standards suggest that breaches of binding contracts should be avoided, although the NFL has been hesitant to block franchise moves.

VIII. CONCLUSIONS AND RECOMMENDATIONS

It appears likely that the Chargers will send a "trigger" letter in 2002, and possibly again in 2003 or soon thereafter. If this occurs, the City will have to be prepared to audit the trigger figures, negotiate in good faith over the offset, and litigate the meaning of the trigger clause if necessary to prevent the Chargers from pushing the City into the "shopping" and "match" period. We believe that this will require careful work and cooperation among the Mayor, City Council, City Manager and City Attorney.

We urge the Mayor, City Council, City Manager and City Attorney and any outside consultants to begin preparation immediately for the crucial 90 day renegotiation period by identifying in advance any informational, legal or political challenges which will be presented in negotiating and, if necessary, litigating, in this crucial time period. Effective negotiation (or litigation) in this period may well be the key to retaining the Chargers at a modest incremental expense.

FACILITIES & REDEVELOPMENT COMMITTEE

Committee Members

Task Force Members	*Professional Background*
Nikki Clay (Chairperson)	Carpi & Clay
Joseph Martinez (Co-chairperson)	Martinez + Cutri Corporation Architects
Cassandra Clady	Employment Development Department Tax Branch
Pepper Coffey	Prudential California Realty
Tom Fat	Fat City, Inc.
Bruce Henderson	Henderson & Henderson
Karen Heumann	Hull McGuire PC
Bill Largent	Systems Integration & Research, Inc
Patti Roscoe	PRA Destination Management Company
Jeff Smith	Sunbelt Management Company

Mission Statement

The assigned tasks for the Facilities & Redevelopment Committee of the Citizens' Task Force on Chargers Issues were to:

1. Examine Qualcomm's current operations, finances and condition.

2. Determine whether we really need a new stadium or if Qualcomm could be upgraded.

3. Analyze the development opportunities and constraints of the current site.

4. Analyze development that would create a maximum revenue stream, but also consider environmental issues.

Introduction

Over the course of a seven month period, the Facilities & Redevelopment Committee held 13 meetings and heard more than 30 presentations. Testimony included that of various community and planning groups, environmental organizations, private developers, community residents, stadium tenants (SDSU Aztecs, Pacific Life Holiday Bowl, and Gold Coast Classic), as well as City staff (traffic, environmental protection, property, water utilities, etc.) and personnel from the Metropolitan Transit Development Board (MTDB) regarding the trolley. Based on the testimony, the members developed a list of committee findings (Appendix E). Several characteristics of the stadium site and community goals were identified as important and thus are explained more thoroughly below.

Characteristics of the Qualcomm Site

The Qualcomm Stadium site is bordered by the San Diego River, I-15, Friars Road, and the Fenton Parkway shopping center. Adjacent to the site is the Mission Valley Terminal which is the main fueling site in the county. A majority of the site is located in the floodplain fringe and the area within 300 feet of the river is in the floodway.

The site consists of approximately 166 acres of property. The stadium covers approximately 15 acres, while the parking lot is 122 acres and contains over 18,000 parking spaces. The stadium is conveniently located near four freeways: I-15; I-805; I-8 and Highway 163. This freeway access, the San Diego Trolley station in the parking lot, and the high number of parking spaces make the stadium site very accessible.

There are three main challenges to the future development of the stadium site. First, in 1992, it was determined that a gasoline leak from the Mission Valley Terminal had entered into the groundwater on the site. Clean up efforts have been taking place since 1992 and are the responsibility of the owner of the Mission Valley Terminal and the oil companies located at the terminal. Current plans call for the cleanup of contamination underlying Qualcomm Stadium by 2015. The existing gasoline plume is not affecting the current uses of Qualcomm Stadium or the health of visitors or workers, and any future health risk assessments would take into account changes in land use. Any proposals for future development would need to consider potential impacts caused by contaminated soil or groundwater. Future development will also need to be coordinated with the cleanup efforts mandated by the Regional Water Quality Control Board currently underway to ensure that the timelines for the cleanup remain in place. This could increase the development time required, however any additional costs incurred due to the contamination should be the responsibility of the owner and users of the terminal. (Appendix F contains a memo from Senior Deputy City Manager George Loveland regarding the Mission Valley Terminal.)

The second challenge is the location of the stadium in the floodplain fringe and floodway. This dictates the type of development and various restrictions that need to be followed. It is most likely that only a park could be developed in the floodway. In the remaining portions of the site a hydrology study would be required to determine parameters for future development.

The third challenge is the infrastructure surrounding the site. Traffic congestion already occurs in the vicinity of the site and the neighboring communities have expressed concerns with pedestrian access to the stadium, transportation issues, and parking impacts on their streets. Additional development of the site would require studies and mitigation measures to address the infrastructure needs.

Surrounding Community Goals and Issues

The Qualcomm Stadium site is a part of the Mission Valley Community Planning area. In addition to impacting the Mission Valley area, Qualcomm Stadium also has a major impact on the Serra Mesa community just north of the stadium.

Representatives of both the Mission Valley and Serra Mesa Planning Groups were in general agreement on the various issues surrounding the stadium. First, traffic from stadium events is the greatest impact on the communities. For sell-out events, the stadium parking lot will normally close and fans will park in the surrounding communities. This creates problems for businesses and residents. Both groups propose that the number of parking spaces not be reduced.

Second, there were concerns about noise from events. Because of the type of stadium sound system, i.e. main speaker cluster, the music and announcements from the stadium sound system are heard in the neighboring communities. Correcting this situation would require installation of a new sound system, at a significant cost.

Finally, both planning groups indicated the area lacks public parks. They strongly recommend that any development should include a public park and enhancement of the river environment with more pedestrian access provided through the development to the river and park. (Appendix G contains the presentations made to the committee by the Mission Valley and Serra Mesa planning groups).

Guiding Planning Principles

As a result of the committee's work, it is the committee's belief that several planning principles need to be met no matter which development plan is ultimately adopted. The Guiding Planning Principles are:

1. That the Qualcomm Stadium site is centrally located to downtown, Mission Bay, Old Town, and San Diego State University, and collectively, these areas must be considered part of the urban core of San Diego.

2. That the San Diego River is an asset to the entire region and its full potential and restoration must be realized.

3. That the transportation access to the site is a tremendous asset to the urban core and of great benefit to the Qualcomm site. The site interfaces with four freeways, including I-15, I-805, I-8, and Highway 163. The east-west line of the trolley is another asset and its use (rider-ship) needs to be more fully utilized.

4. That infrastructure for the communities surrounding the Qualcomm site is inadequate to serve the current needs of the communities and a strategy must be developed to address these needs and other impacts in order to support further development at the site.

5. That the Qualcomm Stadium site is a valuable regional public asset and is ideally suited to the concepts of the City of Villages and Sustainable Design. And, furthermore, the site can meet many of the outstanding needs of the adjacent community and/or region, particularly those of park space, housing, and recreation.

6. That any new improvements should be considered regional public assets that serve broad cross-sections of the San Diego community with diverse uses, including current users, which are properly encouraged and promoted.

Development Options for the Site

During the past seven months, various development options have emerged from the work of the various committees as well as from the Task Force's Workshop of February 8, 2003. Should the City Council move forward with the option of building a new stadium, the Task Force recommends the City Council direct the City Manager and City Attorney to (1) focus their negotiation efforts on 'Option 4 - Provide a New, State-of-the-Art Stadium and Lease of Site' approach to financing a new stadium at the Qualcomm site, (2) selectively use any elements of the other options that may be beneficial to the City, and (3) apply the principles set forth above throughout the entire negotiation process. Each option is identified and described below.

Option 1 - Retain the Existing Stadium Facility

Basic Program Description:
Qualcomm Stadium opened in 1967 as a multi-purpose facility to accommodate both football and baseball. There are currently approximately 70,500 seats at the stadium and over 18,000 parking spaces on the site. Annually, the stadium hosts approximately 110 events inside the stadium, including the SDSU Aztecs, Pacific Life Holiday Bowl, Gold Coast Classic, and high school CIF football, and 200 parking lot events. Qualcomm Stadium has also been host to Super Bowls, MLB World Series, MLB All-Star Games, and numerous concerts and conventions.

Pros:

1. Very functional and has received high customer service ratings over the last several years.

2. Conveniently located adjacent to four freeways and public transportation. The extension of the trolley to the east in 2005 will be an added benefit to the site.

3. The stadium is a valuable community asset. Numerous fund-raising, community information events, and annual high school championship football games have taken place at the stadium.

4. Qualcomm serves as home to the Pacific Life Holiday Bowl which has generated over $290 million economic impact during its 25-year history and become known as America's most exciting bowl game. Without Qualcomm, the SDSU Aztecs would not have a home stadium and would lose Division 1A football status. The Gold Coast Classic is held annually in Qualcomm Stadium, as are high school CIF football games.

5. Successfully hosted the world's major sporting events: three Super Bowls and two World Series. Qualcomm Stadium is the only stadium to host both a Super Bowl and World Series in the same year (1998).

6. The 122-acre parking lot provides opportunities to lease space to various events. There are over 200 events conducted in the parking lot each year. As a result of the planned departure of the Padres to the new ballpark in 2004, a Request for Proposals (RFP) will be issued in the summer of 2003 to maximize the use of the parking lot.

7. The stadium generates approximately $1.5 million per year in sales tax revenues for the City from the various events.

8. There will be several benefits when the Padres vacate the stadium. First, additional locker rooms, ticket sale space, suites, and other areas could be made available to the Chargers and other stadium users. Second, the reduction of 81 annual baseball games will result in less wear and tear on the facility and more time to perform needed maintenance. This will significantly improve the condition of the playing field, which is damaged due to converting the field between the baseball and football configurations. Third, operating expenses will decrease.

9. Over the years, the stadium has received many architectural design awards.

Cons:

1. Maintaining the stadium in its current condition would most likely not meet the needs of the Chargers.

2. The NFL has stated that Qualcomm Stadium does not meet their criteria for hosting future Super Bowl games and without a new stadium San Diego would not be selected to host future Super Bowl games.

3. Since the stadium will be 37 years old in 2004, improvements will need to be made to the plumbing, sound, and electrical systems. It could be extremely costly to repair and replace underground sewer and water pipes when they do fail. In addition, the parking lot will need to be resurfaced in the near future and significant concrete repair work will be needed at a cost of approximately $3.0 million. Finally, because of the age of the stadium, various pieces of equipment could fail at anytime which would result in significant unforeseen expenditures.

4. Qualcomm Stadium does not provide for the improved sightlines, wider concourses, additional concession stands and restrooms, an adequate press box, and larger locker rooms that are features of the newer stadiums. Newer stadiums contain 1.6 - 1.8 million square feet of space, while Qualcomm Stadium contains only 1.1 million square feet. The additional area in other stadiums is generally attributable to back-of-house and support services spaces.

Discussion & Analysis:
In 1965, the citizens of San Diego approved by a 73% margin the construction of the stadium at a cost of $27.1 million. 52,000 seats were included and there were no suites initially. It was built as a multi-purpose facility for baseball and football uses, which was the standard for stadiums at the time. Now, the trend is for construction of separate baseball and football facilities. Qualcomm Stadium is one of three multi-purpose stadiums remaining in the country, the others being located in Miami and Oakland.

Since its original construction, the stadium has undergone various stages of renovation. In 1980, the Chargers built 29 suites in the stadium at no cost to the City. In exchange, the City gave the Chargers the rights to lease the suites with the City receiving a percentage of the revenues. In 1984, at a cost of $9.1 million, the City expanded the seating to 60,000 and constructed 50 suites. In 1997, at a cost of $78 million, including approximately $12 million for the construction of an off-site Chargers training facility, the seating capacity was increased to 71,500, 34 suites were added and club level seating was created. Finally, in 2002 approximately $5.0 million was spent to make the stadium more accessible to persons with disabilities by increasing the wheelchair seating by 154 seats. This construction required the removal of other seating to gain the necessary space, and resulted in a reduction of the overall capacity to approximately 70,500 seats.

During the 1997 expansion, no structural upgrades were made to the existing portions of the stadium, nor did the expansion address back-of-house issues. As noted during several stadium tours, serious cracks were present throughout the stadium; exposed rebar is rusting; poor seepage causes water settlement; and during rainy weather, fans must be reseated in other areas. Deteriorated expansion joints allow water penetration to seating areas and locker rooms. Cast iron sewer and water pipes are from the original construction.

Concrete is badly stained, chipped, and in some areas, very jagged. Aging escalators break down and staffing is required during games to insure immediate response time to problems. Aging plumbing is a constant issue. Maintenance crews operate out of storage containers located ¼ mile away from the stadium. Kitchen facilities are inadequate to support the current stadium capacity.

Concourses are narrow with an inadequate number of food facilities. Restrooms, especially on the view level, are antiquated and inadequate. The locker rooms are too small. A single visiting team is required to split up and use two separate locker rooms. Press boxes are not state-of-the-art and feature sight-lines oriented toward baseball. Suites are small and not well appointed. The sound system is not state-of-the-art. Sound system noise, otherwise disturbing to neighbors, could be restricted to the stadium by a state-of-the-art sound system.

Over the next several years, major maintenance will be necessary to address the stadium issues described above. Approximately $3.0 million will be required to make concrete repairs, resurface the parking lot and replace or overhaul the escalators. The estimated cost of a new sound system is approximately $3.0 million. In addition, as the stadium ages, plumbing, electrical and equipment problems could develop with significant cost implications. Estimates for deferred maintenance range from $10 - $50 million.

To summarize, in comparison to the newer stadiums around the country, Qualcomm Stadium does not measure up in several areas. Sightlines are not as good; concourses are narrower which impedes traffic flow; the concession stands and restrooms are insufficient; locker rooms are significantly smaller; the back-of-house facilities are minimal and press box facilities are inadequate. When the Padres vacate the stadium in 2004, additional space will become available to make some improvements and enlarge the locker rooms. However, it would take a substantial amount of funds to correct the other deficiencies.

Although Qualcomm Stadium is 35 years old and one of the older stadiums in the country, it is considered to be well-maintained and performs admirably in hosting 110 events per year. The stadium's 18,000 plus parking spaces and trolley station provide for easy access for events.

In conclusion, Qualcomm Stadium can continue to operate as a viable facility over the next several years with the addition of more maintenance funds. However, at some point in time a determination will need to be made about whether it is cost effective to build a new facility or continue to put money into an aging stadium.

Option 2 - Undertake a Major Stadium Renovation

Basic Program Description:
The Chargers consultants, HOK Sports with Turner Construction, proposed a 65,600-seat stadium, containing approximately 1.6 million square feet of space, at a cost of $353

million. HOK's ideas for remodeling the stadium included: re-do the field; raise the field; expand the Club Level concourse; expand suites; and re-do mechanical and electrical systems. Seating configuration would also be changed to provide a more intimate fan experience. It was their contention that the renovated facility would be "competitive" but not State-of-the-Art. (Note: Based on the HOK/Turner proposal, the construction cost for renovation is nearly the same as that of a new construction. Regarding renovation, it is "unclear" how much is attributable to uncertainties (contingencies).

Pros:

1. Costs as much as $100 million less than a State-of-the-Art new facility.

2. Maintains architectural design of the Stadium.

3. Accessibility to the Mission Valley Trolley Line, and I-15, I-8, I-805 and Highway 163.

4. Location of stadium would remain intact; no impact to fans or current users such as the SDSU Aztecs, Pacific Life Holiday Bowl, Gold Coast Classic, and high school CIF football.

5. If the stadium is renovated, the 18,000 plus parking spaces would remain. The Mission Valley and Serra Mesa planning groups have given several presentations regarding the Qualcomm site. They have expressed concerns about the lack of parking and game day impacts on their communities.

6. The benefit of a renovated stadium, according to HOK & Turner Construction, is that sideline seating would be better for fans, provide adequate back-of-house and other support service areas, and would be more intimate than the current stadium.

Cons:

1. Qualcomm was built in 1967 as a multi-use facility and is 35 years old, and in need of $10 - $50 million in deferred maintenance.

2. Qualcomm foundation has undergone differential settlement, which cannot be economically corrected short of starting all over.

3. A seismic update will be costly in remodel scenario.

4. The NFL requires 70,000+ seats for Super Bowls.

5. The 166-acre parcel is valuable, under-utilized acreage in a central urban location.

6. The logistics of remodeling while continuing to use the stadium are challenging.

Discussion & Analysis:
At what point is substantial further investment in an aging facility not fiscally responsible? Costs for renovations of a multi-use facility (depending on the source and complexity of renovations) are estimated to be between $100 and $400 million. Issues that must be addressed in a remodel are extensive.

The current stadium has undergone several remodels. As a result, all components do not have a common foundation. The initial construction is supported by pilings that transfer loads to bedrock, while the stadium additions are supported by large footings causing differential settlement of four or five inches in two sections. The View, Press, and Loge levels were built on piles; the Plaza and Field levels were built on grade. The Plaza and Field sections sit on dirt and water and, in the event of an earthquake, liquefaction could occur and they could sink. A remodel would require costly seismic upgrades throughout the facility.

Various consultants presented renovation plans for Qualcomm Stadium. One recommendation was to lower the field to provide the lower level seats an unobstructed view of the field. A deeper field would, however, require expensive water pumps due to the site's elevated water table. An alternate recommendation made by HOK and NBBJ was to raise the field to improve its sight-line from the stands. Neither proposal was fully adequate as each envisioned a stadium containing 65,600 seats, while the NFL requires 70,000+ seats for Super Bowl games.

With its central location, trolley station, and proximity to the San Diego River, the site is very suitable for a mixed-use entertainment and community development. As it stands now, the parking lot is 122 acres of concrete with a 15-acre stadium.

During a remodel, current users (Chargers, SDSU Aztecs, Pacific Life Holiday Bowl, Gold Coast Classic, high school CIF football, etc.) of the stadium would have no home. A suggested option was to remodel during the football off-season and stop during the season, which would delay completion of the remodel and add to the remodel costs.

Option 3 - Provide a New, State-of-the-Art Stadium with Park at the Present Site

Basic Program Description:
The "Stadium/Parks" development plan analyzes the impacts and financial requirements of master planning the entire 166-acre site for a new stadium, community park, and river park. The stadium facility and associated areas require 71 acres per the Chargers revised proposal dated January 24, 2003. The community park requires 20 acres and the river park would consist of the balance of the property, or 75 acres.

Pros:

1. The new stadium would not measurably increase trips (traffic) to and from the site as it is replacing an existing use. Therefore the new facility will not create new traffic impacts to the existing circulation system

2. Minimal off-site traffic impacts from park development.

3. Fulfills the Mission Valley community's desire for a 20-acre community park.

4. Fulfills the desire for enhancement of the San Diego River and makes possible the creation of a major regional river-oriented open space amenity.

5. Limited impacts of development in the 100-year floodway with a new stadium located in the northwest corner of the site.

6. Relocation of the stadium to the northwest corner allows for on-going underground environmental remediation.

7. Resolves current Chargers issues with the existing stadium situation.

8. Offers the City the opportunity to host future Super Bowl events.

9. Would offer the SDSU football program new signage and locker facilities, and increase the potential for increasing future revenue to the San Diego State University athletic programs.

10. The plan could be developed in phases.

11. If phased, the stadium component may only require limited entitlement review and allow an expedited resolution to the current operating deficits of the existing stadium.

12. The "Stadium/Parks" plan does not have the financial risks associated with commercial development nor require the "gap" financing necessary while waiting for the commercial development to provide property tax revenues.

13. A new stadium would allow the City to negotiate a new contract and in so doing, eliminate the existing Ticket Guarantee and Renegotiation clauses.

14. Would provide a continuing venue for the SDSU Aztecs, Pacific Life Holiday Bowl, Gold Coast Classic, and high school CIF football which generate revenue for the City.

Cons:

1. Requires a significant public financial commitment and acceptance of a special sales and/or user tax on a countywide basis.

2. The "Stadium/Parks" plan is not the highest and best use of the property from a commercial development standpoint.

3. Under-development of the site would result in the loss of future increased property tax revenue to the City.

4. Loss of the opportunity to increase housing supplies in the City of San Diego.

5. Loss of the opportunity to fully utilize the potential of the San Diego Trolley.

6. The plan is inconsistent with the City of Villages planning objectives to increase development intensity adjacent to existing alternative transportation facilities.

7. Use of public funds would require a ballot measure requiring a 2/3 voter approval margin.

8. Possible financial risk to the City from stadium construction cost overruns, construction delays, and shortfalls in new stadium revenue if the Chargers are unwilling to take responsibility for these areas.

Discussion & Analysis:
<u>The Community Park</u> - The Mission Valley Community Plan outlines the need for a 20-acre Community Park developed along City of San Diego Park & Recreation guidelines. The Mission Valley Public Facilities Financing Plan, dated December 1996, identifies this need as Project #MV-62 consisting of athletic fields, picnic areas, a recreation building, and nature trails. The estimated $10 million cost includes $6.3 million for land acquisition and $3.7 million in park infrastructure improvements to be funded with Development Impact Fees generated from commercial and residential development in Mission Valley. The Financing Plan forecasts land acquisition in 2004 and construction starting in 2005. The Community Park would be managed and maintained by the City of San Diego.

<u>The River Park</u> - The San Diego River Park Foundation envisions a project to restore the nature habitat of the San Diego River and enhance public awareness and enjoyment of the river as a regional public amenity. The Stadium/Parks development plan would set aside 75 acres adjacent to the river for such use. The San Diego River Park Foundation could fund the river park development. It could be managed and maintained by the City of San Diego in cooperation with State and Federal agencies and The San Diego River Foundation.

<u>The Stadium</u> - The new stadium facility and associated areas as proposed by the Chargers consist of a 65,600 seat football-only stadium expandable to 73,000 seats for special events. The stadium facility would encompass a 25-acre portion of the northwest corner of the property. Associated areas include a two-story structured parking ramp for 2,500 cars on 12 acres, surface parking for 3,000 cars on 20 acres, and related plazas and open space on 8 acres. The total stadium cost would be approximately $500 million including $400 million for the stadium, $67 million for retirement of the bonds on the existing stadium, buyout of naming rights and the concessionaire contract, and demolition/reclamation of the existing site. The approximate $500 million stadium development could be financed with $200 million plus from the Chargers and NFL, and the balance from a special County-wide user tax or fee, with the public expenditure

capped and any cost overruns the responsibility of the Chargers. This special tax would require a countywide vote with a 2/3 approval margin. The 25 acres required for stadium development could be ground-leased to the Chargers for a term coterminous with the term of the new lease. The City could own the facility and lease it to the Chargers to manage and maintain. In addition, the Chargers could be responsible for construction, construction delays, and shortfalls in future stadium revenues.

The "Stadium/Parks" development plan offers a means to resolve the current issues with the Chargers and provide the community with park and open space amenities they desire at this location. However, in doing so, the opportunity to maximize the transportation effectiveness of the San Diego Trolley and the ability to provide needed residential opportunities for the City is lost. Therefore, the "Stadium/Parks" development plan is a clear trade-off between open space and land planning from a public policy perspective.

The Qualcomm site is a challenging development opportunity. The site is located in the floodplain fringe and is subject to inundation in major storm events. Additionally, as previously stated, in 1992 it was determined that a gasoline leak from the Mission Valley Terminal had entered into the groundwater on the site. The gasoline plume flows diagonally across the site from northeast to southwest, directly under the existing stadium. Clean up efforts have been taking place since 1992 and are the responsibility of the owner of the Mission Valley Terminal and the oil companies located at the terminal. Any proposals for future development would need to consider potential impacts caused by contaminated soil or groundwater. Future development will also need to be coordinated with the cleanup efforts mandated by the Regional Water Quality Control Board currently underway to ensure that the timelines for the cleanup remain in place. This could increase the development time required, however any increased costs would be the responsibility of the owner and users of the terminal. Vehicular access to the site is limited with few opportunities to offer expanded future access and egress from the site. Consequently, increased commercial and/or residential development may have significant impacts that cannot be mitigated.

Although the "Stadium/Parks" development plan offers a means to reduce potential traffic impacts, is sensitive to the river environs, and has the potential to resolve the existing public/private stadium contract issues, it will require a significant public financial commitment to achieve those results. The question of whether County voters will accept a special entertainment-oriented sales and/or user tax of limited duration to fund the public portion of the stadium development is unknown. The importance of an NFL franchise in San Diego is difficult to gauge. It is real to some and intangible to others, and may prove to be of lesser importance to many when faced with the current economic conditions.

However, due to the limited development proposed by this option, it may be possible to expeditiously reduce or eliminate current and future operating deficits funded by the City's General Fund and redirect the funds currently used to offset those deficits to more pressing City needs. In addition, future rents from a new stadium and spending from future Super Bowl events offer a new revenue source to the City. Land for the stadium could be offered under a long-term ground lease. The City could donate the land required for the community and river parks.

Conclusion
From a planning point of view, the “Stadium/Parks” development option appears to be the least complicated, less risky, and most expeditious means to resolve the current Chargers related issues. The plan offers the secondary benefit of providing a location and opportunity to create a community park and regional open space amenity. However, the plan requires a positive vote from two-thirds of County voters to enact the special sales and/or user tax required for its implementation.

Option 4 - Provide a New, State-of-the-Art Stadium and Lease of Site

Basic Program Description:
This development plan analyzes the impacts and financial requirements of master planning the entire 166-acre site for a new stadium, community park, a river park, and potential other development such as housing and commercial uses. Area of the site not required for the stadium facility and associated areas would include the parks and other potential development.

Pros

1. Fulfills Chargers desire for a new stadium and keeps the Chargers in San Diego for the long term.

2. This model is consistent with the Mission Valley Community Plan.

3. Fulfills the desire for enhancement of the San Diego River and makes possible the creation of a major regional river-oriented open space amenity.

4. Offers the City the opportunity to host future Super Bowl events.

5. Could offer the SDSU football program new signage and locker facilities, and increase the potential for increasing future revenue to the SDSU athletic programs.

6. The plan could be developed in phases.

7. If phased, the stadium component may only require limited entitlement review and allow an expedited resolution to the current operating deficits of the existing stadium.

8. The Chargers would have the financial risks associated with commercial development or require the “gap” financing necessary while waiting for the commercial development to provide property tax revenues.

9. A new stadium would allow the City to negotiate a new contract and in so doing, eliminate the existing Ticket Guarantee and Renegotiation clauses, and the drain on the General Fund.

10. Would provide a continuing venue for the SDSU Aztecs, Pacific Life Holiday Bowl, Gold Coast Classic, and high school CIF football.

11. If the Chargers choose to develop portions of the site for commercial or housing uses, subject to City approval, there is the potential for additional property tax and sales tax revenue for the City.

Cons:

1. Chargers and NFL financial commitment and willingness to undergo the entitlement process are unknown.

2. Unknown amount of future revenues to support retirement of existing debt, infrastructure expenses, and park development costs.

3. Undetermined lease revenues.

Discussion & Analysis:
<u>The Stadium</u> - In this option, the City would lease the 166-acre site to the Chargers for construction of a new stadium, community park and river-front park, and potential other new development. The Chargers would be responsible for all stadium costs and entitlement processing for the stadium, parks and other development. Ground rent would be set in an amount that reflects the value of the public amenities provided by the Chargers. The Chargers would be required to accommodate the current users and could retain the rent revenue from the other users.

This development plan offers a means to resolve the current issues with the San Diego Chargers and could provide the community with park and open space amenities they desire at this location.

The Qualcomm site is a challenging development opportunity. The site is located in the floodplain fringe and is subject to inundation in major storm events. Additionally, as stated previously, in 1992 it was determined that a gasoline leak from the Mission Valley Terminal had entered into the groundwater on the site. The gasoline plume flows diagonally across the site from northeast to southwest, directly under the existing stadium. Clean up efforts have been taking place since 1992 and are the responsibility of the owner of the Mission Valley Terminal and the oil companies located at the terminal. Any proposals for future development would need to consider potential impacts caused by contaminated soil or groundwater. Future development will also need to be coordinated with the cleanup efforts mandated by the Regional Water Quality Control Board currently underway to ensure that the timelines for the cleanup remain in place. This could increase the development time required, however any increased costs would be the responsibility of the owner and users of the terminal. Vehicular access to the site is limited with few opportunities to offer expanded future access and egress from the site. Consequently, increased commercial and/or residential development may have significant impacts that cannot be mitigated.

Future rents from a new stadium and spending from future Super Bowl events offer a new revenue source to the City. Land for the stadium could be offered under a long-term ground lease. The City could donate the land required for the community and river parks.

Conclusion
This development option appears to place the least financial risk on the City and the most on the Chargers. The plan offers the secondary benefit of providing a location and opportunity to create a community park and regional open space amenity.

Option 5: Pursue the Chargers Proposed Development Program

Basic Program Description:
This proposal includes a 65,600 seat football only facility, containing approximately 1.6 million square feet of associated programmed spaces. In addition, the stadium would contain approximately 8-10,000 parking spaces, residential units (3,300 DU), retail (230,000 square feet), commercial office (600,000 square feet), and a hotel (600 rooms). Also included is a major river park (9-18 acres) along the San Diego River. Approximately 14,000 parking spaces would be provided across the site as an integral part of the program components indicated above. The proposal calls for a 50-50 public-private partnership split of costs of the estimated $400 million stadium construction cost. The $200 million public contribution is to be generated by the creation of a redevelopment district or Infrastructure Financing District (IFD) at the current site which would generate new tax revenue from a site that is currently generating zero tax revenue for the City. (Appendix H contains the revised Chargers proposal.)

Pros:

1. The proposal provides the requisite stadium program for the Chargers, keeping them in San Diego long term and eliminating the current ticket guarantee and trigger issues.

2. The mixed development program is consistent with the concepts of City of Villages and Sustainable Design principles, and will support density in the urban core.

3. The proposed stadium could provide for additional Super Bowls.

4. The mixed-use development potentially may contain diverse housing types (rental, for sale, seniors, faculty, etc.).

5. The retail component of the program will provide additional sales/user taxes, and the hotel component of the program will provide additional TOT revenues.

6. The river park will provide a regional asset for the benefit of the citizens of San Diego.

7. The mixed-use development is an appropriate interface with Fenton Market Place.

8. The mixed-use development will create a synergistic relationship with other adjacent programs within the Mission Valley, Old Town, downtown, and Mission Bay areas.

9. The proposed stadium will accommodate the SDSU Aztecs, Pacific Life Holiday Bowl, Gold Coast Classic, high school CIF football, motor cross, and concerts, etc.

Cons:

1. This option is not consistent with the Mission Valley Community Plan.

2. Existing infrastructure (utilities, streets and roads, etc.) is insufficient for the intensity of the proposed development.

3. Proposed development would increase traffic on existing surface streets and roads, as well as increase the impact of surface parking in residential neighborhoods.

4. The housing component may require an expansion to existing school(s) or necessitate a new public school.

5. The 166-acre development is within the floodplain fringe of the San Diego River.

6. The development will require coordination with the Regional Water Quality Control Board regarding clean up of on-site toxics and the plume.

7. According to BSG and Keyser Marston, the site would not generate the revenue necessary to cover the City's contribution, as the site would not qualify for redevelopment status. (Appendix I contains the BSG and Keyser Marston analyses of the Chargers proposal.)

8. Mission Valley and Serra Mesa planning groups expressed concern about significant impacts to surrounding neighborhoods. (Appendix J contains the planning groups' final presentations)

Discussion and Analysis:

The Mixed Use Development Proposal offers approximately 2442 condominiums, 852 apartments, 600,000 square feet of office, 230,680 square feet of retail space, a 623 room hotel and a 10 to 20 acre river park plus a 1,600,000 square feet (65,600 seat) state-of-the-art football stadium (addressed in Appendix I). The proposed development contains 3000 plus dwelling units (potentially mixed affordable housing, senior housing, first time homeowners, and family and single housing). Given the site's close proximity to existing public transportation system (trolley and bus, and freeway system), and its location within the urban core of medium and high-density development, this site is an asset to the whole San Diego region. Its mixed use development is compatible with the rest of Mission Valley and its retail area interfaces with the adjoining Fenton Marketplace retail shopping center. Moreover, the development's proposed 600-room hotel compliments the eastern end of Mission Valley as the whole of Mission Valley is known as a major hotel and motel zone. A 600,000 square feet office component is also consistent with the land use in Mission Valley. This mixed use development creates employment opportunities in tourism, restaurants, retail, hotel, service and professional fields.

A centerpiece (excluding the stadium) of this proposed mixed use development is the San Diego river park. Its development should be similar to San Diego's Mission Bay Park and Harbor Island, both genuine regional assets. It will be a river park that is both active and passive, depending on its development concept and the use of the San Diego River. The San Diego river park will be the 24-hour anchor to this mixed use development to ensure its success. The San Diego river park will be unique and be a major regional asset to San Diego.

From an economic point of view, there is a potential for new sources of tax revenues generated by this mixed use development. Under the analyses of the Chargers proposal offered by Keyser-Marston, new monies from property, TOT, and Sales and Use taxes, might generate from $77 million down to $8 million Net Present Value over 30 years depending on certain assumptions (addressed in Appendix I). The Chargers estimated far more tax increment from the project. These new revenues (taxes) can be used to pay for on-site and off-site infrastructure, traffic and environmental mitigation, a river park, and other public amenities with any surplus, and perhaps a portion of the cost of the new state of the art football stadium. However, it is unlikely that new tax revenues would be sufficient to pay the City's share of stadium costs.

The negative aspects of this 5,000,000 square feet mixed use development is that it will impact heavily on the existing infrastructure of traffic, parking, environment, schools, and adjoining neighborhoods (i.e. Serra Mesa) and the existing Mission Valley Community Plan. The other concern is the building of parking structures to accommodate the Chargers. Typically, parking structures do not add any ambiance to any type of development but are necessary for the economic vitality of such development. Accordingly, new parking structures must be landscaped and hidden from view as much as possible. There are two other major issues a developer would have to face in developing this site. One is the underground gasoline plume covering a great portion of this land, and the other is the floodplain fringe designation. Both are obstacles to development but neither would prevent this mixed use development from moving forward.

Option 6 - New, State-of-the-Art Stadium At A Location Other Than Qualcomm

Basic Program Description:
This project option would include a 65,600-seat football-only facility, including approximately 1.6 million square feet of space, and associated development. In addition, the location might contain approximately 10,000+ parking spaces. Alternative sites were not specifically presented by the Chargers, but were considered in brief by the Facilities & Redevelopment Committee. Additional study of this option is warranted if the City proceeds further with the concept of a new football stadium on an alternative site.

Pros:

1. Frees the 166-acre Qualcomm Stadium site for a variety of other uses, including parks, recreation fields, housing, retail and commercial.

2. Provides a river park which will integrate with similar uses in Mission Valley, in particular, Mission Bay Park.

Cons:

1. A suitable site is not readily available without further evaluation.

2. Special attention will need to be paid to infrastructure and land costs, as well as transportation and attendant environmental issues.

Discussion & Analysis:
Several alternative sites were reviewed by the Facilities & Redevelopment Committee and each is analyzed below.

<u>Downtown</u>

Over 20,000 people live and 75,000 work in the downtown area. The goal of CCDC is to have 75,000 residents and 150,000 jobs downtown. Statistics from the Metropolitan Transit Development Board indicate that between 20% and 25% of people traveling within downtown use public transit. Infrastructure is in place to support a mixed-use urban village concept, though stadiums have high demand requirements for limited periods that may require additional services. Parking is plentiful on the weekends (57,000 spaces within 1.5 miles) but is strained during working hours and for special events. Placement of the stadium next to the ballpark would result in an entertainment complex that would have a benefit of shared use parking and services.

Certain significant environmental and aesthetic limitations exist for a combination of large stadium structures clustered together with the small residential neighborhoods of Barrio Logan and Golden Hills.

- Location: East Village community, east of new baseball stadium
- Size**:** 25 usable acres.
- Value: $75/sq ft with improvements, $80-100 million/25 acre site

- Leaseholds/Owner Occupants: bus storage facility
- Environmental Constraints: none known, already planned redevelopment, environmental contamination could be an issue
- Height Restrictions: none known
- Transportation: Highway access, trolley services, planned transit
- Parking: 57,000 parking spaces dispersed throughout downtown, tailgate parking lot for ballpark could provide tailgate parking for Chargers fans. Acceptable parking is located within a 20 to 30 minute walk from the baseball stadium. Trolley stops are expected to lessen parking requirements.
- Infrastructure: Downtown has infrastructure for business, commercial, and residential uses with a redevelopment plan to encompass any additional needs. Stadium use imposes special burdens on services at peak times and may require additional services.
- Special Considerations:
    - Bus storage facility -The bus storage facility services greater San Diego with buses dispersing throughout the community. It has been suggested that this facility could be better located at the Sanders site off Highway 52 which has access to all major highways and where no additional services are needed other than bus storage.
    - Shared Use - the Padres Ballpark redevelopment program has been approved and may provide similar services to those needed for a football stadium. The ballpark redevelopment also includes tailgate parking, which might be shared by the two facilities. The location of a football stadium near the ballpark would create an entertainment complex.
    - Redevelopment Site - tax implications, financing opportunities

<u>Sports Arena site</u>

The Midway/Sports Arena site properties are predominantly a redevelopment area with a few leaseholds outside the redevelopment area (Stonewood Garden Apartments, Orchard II, and ST Associates). The City of San Diego issued a Request for Qualifications (RFQ) for this area in 2002 to create a community-oriented center with mixed use residential, commercial, and entertainment uses with a transit component. The City is currently in the selection phase for a developer/development proposal and then will begin a planning phase for the site. The area is 95 acres, 71 acres of which are privately owned. There is a $112 million assessed value for the property, which does not include relocation costs. The leaseholds continue through 2036. There is a capped landfill on the site. A Bay to River canal or greenbelt area is proposed which would bisect the site in the middle from north to south. There are traffic issues including narrow, one-way streets and limited freeway access.

- Location: adjacent to North Bay Redevelopment area, south of Interstate 8, west of Interstate 5
- Size: 95 usable acres - Sports Arena 35 acres; 71 acres privately owned
- Value: City property plus the cost of acquiring privately held property with an assessed value of $112 million, not including relocation costs.

- Leaseholds/Owner Occupants: 14 leaseholds that expire in 2004 through 2036
- Environmental Constraints: capped landfill
- Height restrictions: 30 feet
- Transportation: Interstate 5 and Interstate 8 access with limited internal street access including narrow, one-way streets
- Parking: Sports Arena stall parking
- Infrastructure: older infrastructure (water, sewer, access) with redevelopment plan to address those issues
- Special Considerations:
    - Bay to river project - may include canal or greenbelt connection that will bisect the 95-acre site.
    - Redevelopment Site - predominantly a redevelopment area with a few leaseholds outside the redevelopment area (Stonewood Garden Apartments, Orchard II, and ST Associates), tax implications, financing opportunities

<u>Sander/Highway 52 site</u>

The Sander/Highway 52 site includes 42.79 acres of City-owned land located in the Kearny Mesa community south of Highway 52. There is a capped landfill on 12.5 acres. The site has sensitive plant species, sensitive wildlife, and vernal pools. Seven native plant communities account for 39.5 acres of the site. The remaining 4.9 acres are disturbed vegetation and developed land. Impacts to the plant species would require mitigation. Impacts to wetlands would require both federal and state permits. There are height restrictions of 75 feet. The site has an appraised value between $4.5-6 million.

- Location: Kearny Mesa community, south of Highway 52, west of Highway 163, U.S. Marines Corps Air Station Miramar is north of the site
- Size: 42.79 usable acres - Capped landfill on 12.5 acres; Seven native plant communities on 39.5 acres; Disturbed vegetation and developed land on 4.9 acres
- Value: appraised value between $4.5-6 million, relocation costs not included
- Leaseholds/Owner Occupants: vacant
- Environmental constraints: There are numerous environmental issues including native plant communities, sensitive wildlife, vernal pools, and wetlands. The environmental review process would be time consuming with high mitigation requirements or denied opportunity for development that would interfere with native habitat. Stadium uses would be inconsistent and incompatible with sensitive wildlife preservation needs. Mitigation measures would be comprehensive. Special permitting process may be costly and time consuming.
- Height Restrictions: 75 feet
- Transportation: Highway 52 is centrally located with access to I-805, I-15, and Highway 163.
- Parking: no established parking
- Infrastructure: none in place to service a stadium use

Otay Mesa/Brown Field

The Otay Mesa /Brown Field Airport community area in southern San Diego is a combination of new residences, new industrial structures, and thousands of acres of vacant land available at competitive lease/purchase rates. Major corporations such as Honeywell and Casio operate their marketing and research centers in eastern Otay Mesa. Additional companies are locating on the Otay mesa. Two major entertainment venues already exist near Otay Mesa: Coors Amphitheatre and Knott's Soak City USA. A new stadium could be of benefit to the developing and established communities in southern San Diego and would make the benefits in various areas of the City more uniform. In addition, the availability of large tracts of land would allow for significant attendant uses, including parks and public facilities in conjunction with a stadium, adding beneficial uses in support of the community.

While located in southern San Diego, Otay Mesa is central to the larger San Diego – Baja California region and could provide a unique setting for a new Chargers stadium. It would serve San Diego and encourage fan participation across the international border. The San Diego-Tijuana region has more than two million inhabitants. San Diego, and its communities such as Otay Mesa, has a growing, culturally diverse population. About 750,000 Hispanics live in San Diego County according to the 2000 Census, comprising 22 percent of the county's population. The National Football League announced in July 2002 that it had chosen Luminas Americas, a New York based Hispanic marketing firm to help expand the league's outreach to Hispanic fans.

- Location: On top of Otay Mesa, east of I-805, west of proposed Interstate 125, several miles north of the international border
- Size: No specific site has been identified, but Brown Field airport and adjacent areas hold plentiful flat vacant lands, including City of San Diego airport property in excess of 1100 acres.
- Value: A range of property values exist on the Otay Mesa. A specific dollar amount has not been attached to any potential site, but land is priced from $5.75 to $8.50 per square foot and is currently far less expensive to purchase and lease than in many other communities in San Diego where land values range from $14 to $40 per square foot. By comparison, Mission Valley land prices range from $22 to $26 per square foot.
- Leaseholds/Owner Occupants: Modern planned community residential areas are situated on the western portion of Otay Mesa, Brown Field airport occupies portions of the mid-mesa area, and modern manufacturing facilities dominate the eastern end of Otay Mesa.
- Environmental Constraints: Vernal pools and non-native grasslands. Large tracts of land without specific constraints exist in and around the airport area.
- Height Restrictions: Zoning and easements may limit height in certain areas. Height limits exist in the residential areas, but no zoning for height exists on the Brown Field airport property.
- Transportation: Highway access is provided by I-5, I-805 and State Route 905 which connects I-805 to the Otay Mesa Port of Entry at the U.S.-Mexico border.

Highway 905 will be expanded in the next few years, as will State Route (SR) 125 on eastern Otay Mesa. SR-125, which is currently under construction, will connect the Otay Mesa Port of Entry with SR-54. Trolley service from downtown San Diego to locations near Otay Mesa already exists, but service to the top of the Otay Mesa is now in the planning stages. MTDB is planning two transit lines up to the Otay Mesa port of entry, one easterly aligned with I-905 and Otay Mesa Road, and the other extending south from East Chula Vista.

- Parking: Substantial acreage is available for parking. No zoning requirements related to parking exist on the City's airport property.
- Infrastructure: Substantial vacant land exists with expanding services. A new 48-inch sewer line and a reciprocal line of equal size are in progress and a preferred route will be selected near the 905 alignment; the trunk sewer line is scheduled for completion in 3 to 4 years. Water supplies are perceived to be adequate. A Facilities Benefit Area (FBA) exists on Otay Mesa and Development Impact fees could be required for any construction. The City as a participant might alter this requirement to expedite development of a stadium project.
- Special Considerations:
    - Hispanic Population - the NFL has demonstrated a commitment to encourage Hispanic fan participation.
    - Season Ticket Holders - of the approximately 33,700 Chargers season ticket holders, approximately 42% live within the San Diego City limits. Some fans may object to a stadium in Otay Mesa due to additional driving time, but this has not adversely affected the other entertainment venues in the immediate area.
    - Aesthetics/View - the Otay Mesa location could provide opportunity for a stadium with spectacular expansive ocean, city and area views from 500-600 foot elevations.
    - Redevelopment site opportunities- Otay Mesa Enterprise Zones exist which might provide additional economic incentives, including the ability to provide for infrastructure.

<u>Sites in San Diego County Outside City Limits</u> - Vista, San Marcos, Carlsbad

Sites outside the City limits were not fully considered but perhaps are worth considering if the City finds the Qualcomm Stadium site and other sites within the City of San Diego unsuitable or undesirable. San Diego County in eastern Otay Mesa, the Cities of Chula Vista, Vista, San Marcos, and Carlsbad may have land which is vacant and relatively inexpensive. These sites might eliminate many of the costs associated with an alternative site, particularly relocation costs and costs associated with delay due to environmental process review and any required mitigation measures. Further, certain of these sites would be closer to season ticket holder residences as only a portion of current season ticket holders reside in the City of San Diego. No particular site has been considered and no discussion of constraints on these sites has been presented.

FINANCE COMMITTEE

Committee Members

Task Force Member	*Professional Background*
Ron Saathoff (Chairman)	San Diego City Fire Fighters, Local 145
Geoff Patnoe (Vice-chairman)	San Diego County Taxpayers Association
Pepper Coffey	Prudential California Realty
Timothy Considine	Considine & Considine
Tom Fat	Fat City, Inc.
Len Simon	Milberg, Weiss, Bershad, Hynes & Lerach.

Mission Statement

The assigned tasks of the Finance Committee of the Citizens' Task Force on Chargers Issues were to:

1. Evaluate the Chargers' financial condition and determine whether the Chargers do need a new stadium to maintain financial viability.

2. Examine the economic contribution the Chargers make to the City.

3. Begin exploring possible financing options for a new stadium, including learning what's been done in other cities.

4. Explore how the County may participate in any future development on the Qualcomm Stadium site.

Introduction

Members of the Finance Committee spent a great deal of time working to address their mission. The Finance Committee met nearly weekly beginning in September 2002 and concluding in February 2003. In total the committee held 18 public meetings. During these public meetings, the committee received presentations from city officials, redevelopment finance experts, the San Diego Chargers, the San Diego International Sports Council, representatives of the visitor industry and officials from other cities who had experience with the relatively new concept of an Infrastructure Financing District (IFD).

The Finance Committee also reviewed the limited financial information provided by the Chargers and various economic impact reports made available by the NFL and BSG. The committee gathered information on various financial resources utilized by other cities for municipal projects such as a stadium, and City financing options and funding mechanisms, primarily through information provided by BSG, City staff, CCDC and Keyser Marston. Additionally, the committee reviewed the operational costs associated with Qualcomm Stadium and the funding sources used to cover expenses, including deferred maintenance costs, and analyzed the costs other cities have incurred to get a team back once allowed to leave town.

A portion of the research obtained by the Finance Committee is included in this Task Force report, including conclusions and several financing principles developed by the committee. Additional information that was critical to this committee's work can be found in the BSG Evaluation of the Proposed Stadium Report presented to the Task Force on February 6, 2003. (Appendix K contains the Executive Summary of the BSG report.)

Adopted Finance Committee Principles

After gathering and reviewing the information pertaining to the committee's mission statement, the committee developed a set of financing principles to be used as guidelines for negotiating any new arrangement with the Chargers. The principles were originally developed by the Finance Committee, and were refined and approved by the full Task Force.

1. No cost to the City's General Fund.

2. If a proposal encompassing a new stadium includes development on the Qualcomm site, incremental taxes generated by that development, whether designated a redevelopment zone, an IFD, or otherwise, which incremental taxes would not otherwise be available to the City, may be employed by the City to pay for infrastructure at the site, a public park on the site or any debt that may remain from the prior renovation of Qualcomm Stadium.

3. If the City chooses to develop the Qualcomm site with a new stadium, it should avoid any sale of the 166-acre site.

4. Any new agreement should address the existing debt, including outstanding bonds, the Qualcomm naming rights payout amount, the out clause on the concessionaire agreement, costs of infrastructure, and environmental impacts within the negotiated agreement.

5. In the event of a lease to the Chargers for the Qualcomm site, a reversion clause is recommended to ensure that the property reverts to the City upon the termination, conclusion or breach of the agreement with the Chargers.

6. Any agreement must provide for the use of a new football facility by the SDSU Aztecs, the Pacific Life Holiday Bowl, Gold Coast Classic and high school CIF football on terms consistent with current agreements for the use of Qualcomm Stadium.

Committee Findings

The findings of the committee are arranged according to the tasks of the mission statement on which their work was focused.

Task 1: The Chargers Financial Condition and Need for a New Stadium

The Finance Committee was unable to evaluate the financial condition of the San Diego Chargers to determine whether the franchise requires a new stadium to remain financially viable. Early in the process, the Finance Committee made a comprehensive request of the Chargers for financial information. A critical component of this request was specific expense data that would have allowed for calculation of the net profit received by the Chargers, which the committee deemed pertinent to addressing the fundamental question of financial viability.

The San Diego Chargers did provide some of the information requested by the Finance Committee. It was reported to the committee that the San Diego Chargers rank 26th out of 32 teams in the NFL in terms of revenue. However, the committee concluded that the NFL Quartile Reports including only revenue figures, without net income, were incomplete information. Several franchises that are listed in the first quartile rank high in terms of revenue. When the net income of these teams is factored in, including any existing debt owed by those franchises, the overall financial picture of those teams differs significantly. For example, the reported purchase cost for the first quartile team Washington Redskins was $800 million and the reported purchase cost for the first quartile team Houston Texans was $700 million, however, the debt these teams owe are not factored into quartile rankings. The rankings are based solely on revenue.

After several requests for additional detail, the Chargers declined to provide net income information, and the committee received a letter from the NFL stating that the specific expense data requested was confidential and would not be provided. The committee attempted to establish a process whereby the committee could review the team's financial data in a manner that would protect the proprietary concerns raised by the team and NFL. That offer was also declined. As a result, the material provided was found by the Finance Committee to be incomplete in addressing the fundamental question of financial viability. This resulted in the Finance Committee's inability to determine whether the San Diego Chargers require a new football stadium to remain financially viable due to lack of information provided by the team and NFL. (Appendix L contains letters regarding financial data requests.)

Task 2: Economic Impact of the San Diego Chargers

Beyond just trying to determine the fiscal condition of the Chargers, part of the Finance Committee's task was to identify the economic impact of the Chargers on the San Diego community. BSG conducted an economic impact study to assist the committee in this effort. The study results follow:

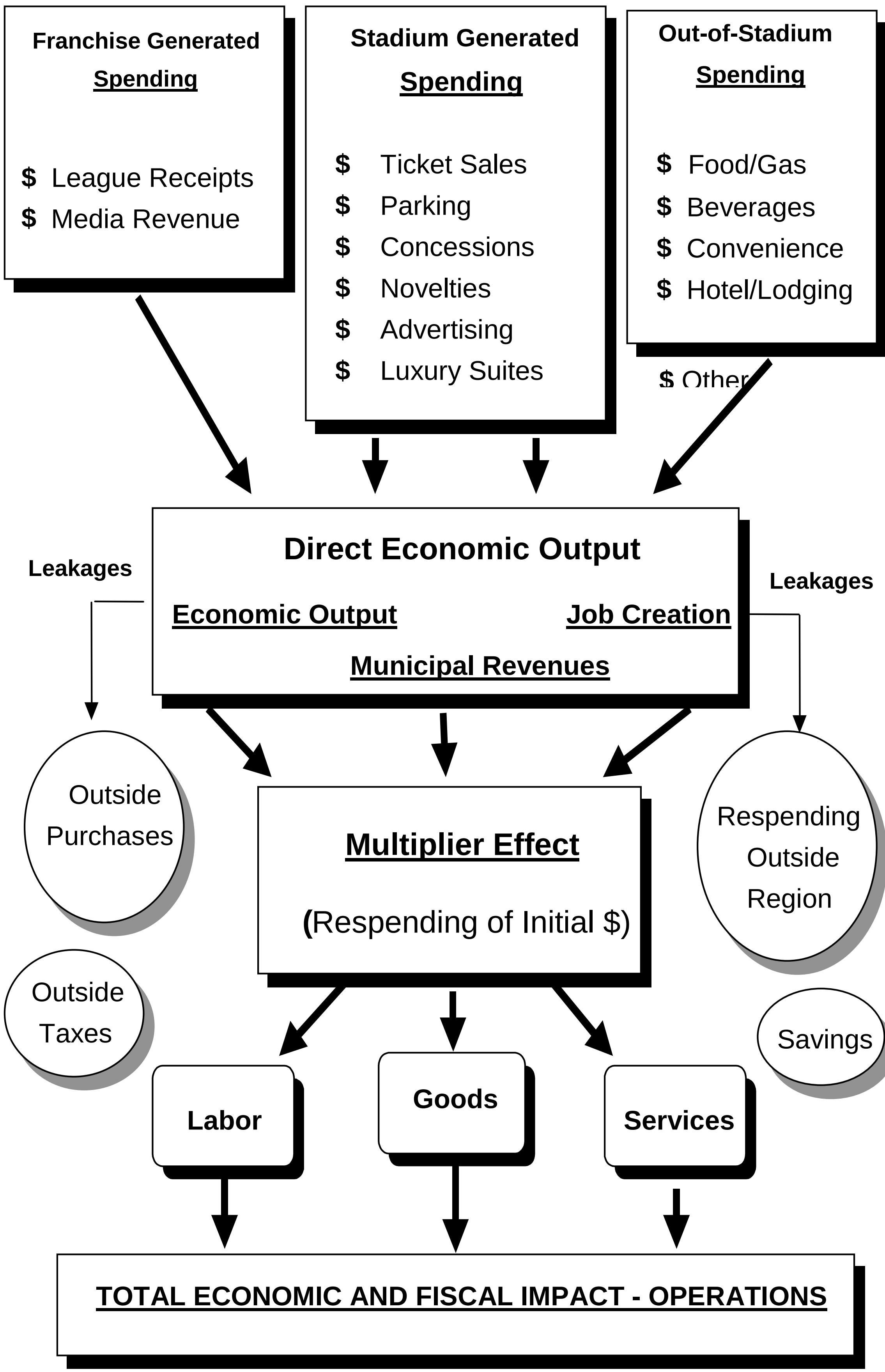
<u>BSG Economic Impact Study Results</u>

The ongoing operations of the San Diego Chargers generate annual, recurring economic and fiscal impacts as the team's events are held in the City of San Diego. This demand results from franchise/facility generated spending (tickets, media, concessions, novelties, etc.), patron spending (restaurants, hotels, gasoline stations, drinking establishments, etc.), visiting team personnel, and media event personnel. Exhibit 1 on the following page presents a flow chart of the economic impacts resulting from the operations of the Chargers.

Exhibit 1

PRELIMINARY ECONOMIC/FISCAL IMPACT ANALYSIS

ECONOMIC AND FISCAL IMPACT SUMMARY - OPERATIONS



METHODOLOGY

A gross expenditure and economic multiplier approach was used by BSG to quantify the economic impacts presented in this section of the report. The initial spending is referred to as "direct" spending and is defined as purchases of goods and services resulting from an economic event over a specified period of time.

Although direct spending has an immediate impact on a regional economy, a portion of each initial dollar is re-spent within the region's economy, generating additional or "indirect" economic benefits. The result of this process is that one dollar in direct spending increases the final demand for goods and services within an economic region by more than one dollar. This is referred to as the "multiplier effect". The BSG report describes the methodology in detail.

The following major study activities were completed:

- Utilized actual key operating variables to estimate the direct spending generated by the Chargers within the City for use in a regional input/output model. The key operating variables used in this analysis include attendance, average ticket price, parking rates, premium seat pricing, advertising revenue, licensing revenue, media revenue, and per capita spending on concessions and novelties.

- Conducted patron surveys at Chargers games and reviewed previously conducted surveys contained in BSG's database for other professional sporting events throughout the nation. These surveys were designed to understand the amount and distribution of out-of-stadium spending generated by the operations of the Chargers. This spending includes purchases before and after the game by patrons and event personnel at restaurants, bars, gasoline stations, grocery stores, convenience stores, hotels and places of lodging, and other retail establishments. BSG only considered new spending by non-City residents.

This report attempts to take into account the fact that players represent a major portion of an NFL franchise's operating expenses, and some players do not reside locally in the City. BSG has adjusted the total direct franchise/facility generated spending because of the high salaries of professional athletes and the fact that approximately 30% of the Chargers' players live outside of the City. The total facility/franchise generated spending used in the economic model was reduced from $129.5 million approximately to $81.0 million after the necessary adjustments were applied. Although this adjustment is somewhat subjective, it is a necessary adjustment in order to account for players' place of residence, savings, and taxes.

SUMMARY OF RESULTS

Definitions

Direct Spending – Initial Spending

Direct initial spending represents the first round of quantifiable spending. This includes franchise operations, out-of-stadium spending by fans, visiting team expenditures, and visiting media event personnel.

Economic Output – Ongoing Operations

Economic output represents the direct, indirect, and induced output generated by the initial first round of quantifiable spending.

FTE Employment – Ongoing Operations

FTE employment represents the number of full-time equivalent job opportunities generated by the direct, indirect, and induced effects of spending associated with the ongoing operations.

Employee Compensation – Ongoing Operations

Employee compensation represents the wages earned in connection with the total output generated in the economic model.

ANNUAL ONGOING OPERATIONS

The following table summarizes the estimated annual economic impacts associated with the ongoing operations of the Chargers:

SUMMARY OF RESULTS - NFL FRANCHISE OPERATIONS					
	Initial Spending	**Adjusted Initial Spending**	**Total Economic Output**	**FTE Employment**	**Employee Compensation**
City of San Diego	$138,247,205	$89,907,989	$149,207,781	1,303	$62,746,914

FISCAL IMPACTS – ONGOING OPERATIONS

Presented below are the 2001-02 fiscal impacts directly attributable to the Chargers use of Qualcomm Stadium:

Fiscal Impacts	**FY 2002**
Chargers Rental Revenue	$6,251,972
Direct Tax Revenue	$21,919
Ticket Guarantee	($5,987,363)
Net Rent Credits	($231,310)
Police/Fire/Traffic Expense	($280,000)
Direct Fiscal Impact	($224,782)

Note: Revenues and expenses directly attributable to the operations of the Chargers.

In addition, the Chargers operations result in indirect impacts that are more difficult to quantify and appropriately allocate:

Other Fiscal Impacts	**FY 2002**
Operating Expenses - (1)	$8,599,887
Stadium Debt Service - (1)	$5,350,769
Tax Impacts - (2)	$9,541,785

(1) - Operating expenses and debt service payments must be allocated, as appropriate, to users of Qualcomm Stadium.

(2) - Tax impacts represent combined state and local tax revenues generated annually

OTHER IMPACTS

Various community service organizations and non-profit organizations have directly benefited from the Chargers involvement in the City, as well as the County. The Chargers indicated that in the past 12 months the organization (not including the Spanos family, players, or coaches) has given cash contributions of approximately $1.0 million to local organizations.

The operations of the Chargers generate other significant impacts for the City that are less explicit and more difficult to quantify. These impacts include:

- Community pride and identity
- Prestige associated with professional sports teams
- National and international exposure
- Improved quality of life

Summary

The Task Force study found the overall economic impact of the San Diego Chargers to total nearly $150 million which is a significant number. However, according to testimony from experts, the visitor industry and business community leaders, the economic impact of other tourist related entities in San Diego significantly outweigh the economic impact of the San Diego Chargers.

Stadium Operations Fund Revenues and Expenses

When reviewing the revenue and expenditures fund of Qualcomm Stadium, the Finance Committee discovered that the stadium is a current drain of more than $9 million to the City of San Diego General Fund, as shown on the chart on the following page. The stadium has been supplemented by revenues from Sports Arena area leases on an ongoing basis, and currently receives unallocated Transient Occupancy Tax (TOT) funding to cover the expenses associated with the ticket guarantee costs as necessary.

Operating Fund

Presented below is a summary of the Qualcomm Stadium Operating Fund from 1999 – 2002. Please note that this summary does not account for reserves, balances, or continuing appropriations.

Fiscal Year	**1999**	**2000**	**2001**	**2002**
Revenues				
Chargers	$5,513,045	$5,770,307	$6,251,381	$6,251,972
Padres	$4,328,655	$4,388,347	$3,511,194	$4,985,691
Aztecs	$268,202	$219,271	$213,108	$243,668
Special Events	$2,333,511	$2,302,897	$2,196,133	$2,290,816
Interest	$67,865	$71,994	$144,697	$81,112
Total Revenues	$12,511,278	$12,752,816	$12,316,513	$13,853,259
Expenses				
Operating Expenses - (1)	$11,330,218	$10,463,494	$9,873,676	$11,761,060
Total Capital Improvements Program	$0	$386,429	$625,363	$251,722
Total Expenses and Capital Improvements	$11,330,218	$10,849,923	$10,499,039	$12,012,782
Net Operating Surplus/(Deficit)	**$1,181,060**	**$1,902,893**	**$1,817,474**	**$1,840,477**
Adjustments				
Less: Chargers Rent Rebate Ticket Guarantee	($3,868,370)	($6,148,762)	($7,968,743)	($5,987,363)
Less: Debt Service	($5,570,158)	($5,357,519)	($4,966,527)	($5,344,243)
Add: Midway Sports Arena Lease - (2)	$2,073,437	$2,287,930	$2,495,910	$2,618,948
Add: Other Revenue	$7,800,000	$1,231,500	$9,023,780	$7,461,981
Adjusted Net Operating Surplus/(Deficit) - (3)	**$1,615,969**	**($6,083,958)**	**$401,894**	**$589,800**
Combined Net City Transfer	**($8,257,468)**	**($9,603,388)**	**($11,117,796)**	**($9,491,129)**

(1) - Including miscellaneous rent credits/expenses.

(2) - Does not account for reserves, balances, or continuing appropriations.

(3) - Midway sports arena lease has historically been dedicated to Qualcomm Stadium by City Council action.

Task 3: Stadium Financing Alternatives

BSG also performed an evaluation of the strengths and weaknesses of various financing methods which have been used for recently completed stadiums and arenas throughout the United States. The purpose was to provide an overview of financing structures and to illustrate some of the trends in new stadium financing.

The discussion contained herein outlines key components of the sports facility financing structures that may potentially be used to finance the proposed stadium and other costs (e.g. infrastructure, land acquisition, etc.) BSG's report contains further detail.

TRENDS IN STADIUM FINANCE AND CONSTRUCTION

The unique background and political environment surrounding the financing and construction of a facility will play a critical role in developing the appropriate financing structure. Presented below is a summary of some of the major trends in the financing and construction of state-of-the-art stadiums and arenas.

- It has become increasingly difficult to fund the construction of sports facilities primarily due to political and economic challenges.
- The changing economics of major league and minor league professional sports and other events (concerts, family shows, etc.) has led tenants to demand a greater share of facility generated revenue.
- The planning and construction of public facilities can take many years.
- The most traditional approach to stadium and arena financing taken by the public sector has been to issue bonds secured by generally applicable taxes or revenues.
- Public participation in financing structures can also come in the form of credit guarantees.
- Private sector participation in financing structures has typically been through taxable debt secured by the facility's operations and/or corporate guarantees.
- Private sector participation through other non-traditional sources has become a critical part of financing structures.
- Franchises (or related entities) and private management firms have increasingly taken over the management and operations of sports facilities. This management structure provides municipalities the opportunity to privatize previously public operations and minimize operating risks.

SOURCES OF FUNDING

The sources of funding for public assembly facilities may be defined as one-time or recurring contributions. Recurring sources of funds include an array of periodic public or private revenue steams, while one-time sources of funds typically include public or private equity contributions and grants. The following provides a brief overview of some of the public sources of funds that have been used:

General Public Funding Sources

- General Sales and Use Taxes
- Hotel/Motel Taxes
- Tourist Development Taxes
- Restaurant Sales Taxes
- Excise/Sin Tax (Liquor, Tobacco)
- Car Rental Tax
- Utility Taxes
- Real Estate/Possessory Interest Taxes
- Admission Taxes
- Ticket Surcharges
- Parking Taxes
- Parking Surcharges
- Lottery and Gaming Revenues
- Player Income Taxes
- Non-Tax Fees (Liquor Sale Permits, etc.)
- General Appropriations
- Land Leases
- Other Public Funds
- University/Other Facility Users

Each of the revenues identified above has unique political and credit risks. The feasibility of introducing, increasing, or redirecting revenue from taxes and fees will depend on the unique political and tax environment. (Appendix M contains an overview of selected funding sources and the estimated revenues that could be generated from those sources.)

Private Funding Sources

The following provides a brief summary of the more commonly used private sources of funds.

- Premium Seating (Luxury Suites and Club Seats)
- Advertising
- Concessions/Novelties
- Pouring Rights
- Naming Rights

- Personal Seat Licenses/Seat Option Bonds
- NFL G-3 Program

PUBLIC FINANCING OVERVIEW - STADIUMS AND ARENAS

A brief overview of the primary public funding sources for recently completed stadiums and arenas is provided in the Exhibit 2 below. The exhibit is intended to provide an overview of public financing structures utilized for recently completed stadiums. This overview is intended to illustrate some of the trends in new stadium financing. The list is not meant to be comprehensive, rather it is provided only for illustrative purposes. (Appendix N contains an overview of the debt financing options that are generally used to fund public facilities is provided.)

PRIMARY PUBLIC FUNDING SOURCES OVERVIEW

League	Team	Sales Tax	Hotel Tax	Rental Car Tax	Food & Beverage Tax	Entertainment Tax	Sin Tax	Parking Tax	Property Tax	Admission Tax	Lottery Revenues	Sewer & Water Revenues	Gas Tax	General Fund	Income Tax
NFL	Cincinnati Bengals	X												X	
NFL	Denver Broncos	X													
NFL	Cleveland Browns			X			X	X		X					
NFL	Tampa Bay Buccaneers	X													
NFL	Philadelphia Eagles			X						X					
NFL	Atlanta Falcons		X												
NFL	Jacksonville Jaguars	X	X												
NFL	Detroit Lions		X	X										X	
NFL	Green Bay Packers	X													
NFL	St. Louis Rams		X											X	
NFL	Baltimore Ravens										X				
NFL	Seattle Seahawks	X	X	X							X				
NFL	Pittsburgh Steelers	X	X											X	
NFL	Houston Texans		X	X											
NFL	Tennessee Titans											X		X	
NFL	Arizona Cardinals	X	X	X						X					X
NFL	San Diego Chargers							X		X				X	
NFL	Chicago Bears		X											X	X
NFL	Washington Redskins													X	
NFL	Carolina Panthers													X	
NFL	New England Patriots													X	
MLB	Houston Astros		X	X											
MLB	Milwaukee Brewers	X												X	
MLB	Arizona Diamondbacks	X													
MLB	San Francisco Giants								X						
MLB	Cleveland Indians						X								
MLB	Seattle Mariners	X		X	X					X	X				
MLB	Baltimore Orioles										X				
MLB	San Diego Padres		X						X						
MLB	Philadelphia Phillies			X						X				X	
MLB	Pittsburgh Pirates	X	X											X	
MLB	Texas Rangers	X													
MLB	Cincinnati Reds	X												X	
MLB	Colorado Rockies	X													
MLB	Detroit Tigers		X	X										X	
MLB	Chicago White Sox		X											X	
NBA	Cleveland Cavaliers						X								
NBA	Atlanta Hawks			X											
NBA	Miami Heat		X												
NBA	Orlando Magic		X	X									X		
NBA	Dallas Mavericks		X	X											
NBA	Indiana Pacers	X	X	X	X		X			X					
NBA	Houston Rockets		X	X											
NBA	San Antonio Spurs		X	X											
NBA	Phoenix Suns	X													
NBA	Minnesota Timberwolves					X		X	X						
NHL	Phoenix Coyotes	X													
NHL	Carolina Hurricanes		X												
NHL	Tampa Bay Lightning	X	X	X	X			X		X				X	
NHL	Florida Panthers	X	X												
NHL	Nashville Predators													X	
NHL	Buffalo Sabers													X	
NHL	San Jose Sharks													X	
NHL	Dallas Stars		X	X											
NHL	Atlanta Thrashers			X											
NHL	Minnesota Wild	X													

(1) Illustrates only primary public funding sources and not private sources.

Task 4: County Participation

The Finance Committee was asked to explore ways the County of San Diego could participate in any future development on the Qualcomm Stadium site, which includes assistance with the construction of a new football stadium for the San Diego Chargers.

No formal discussions took place between members of the Finance Committee and officials with the County of San Diego to address the question of County involvement, however there were informal conversations. It was reported to the committee, however, that the County of San Diego would consider a proposed stadium project when the proposal included all comprehensive financial data related to the proposal. Such a formal plan would need to be reviewed by officials in order to gauge any willingness to participate in a new stadium project at the 166-acre Qualcomm Stadium site.

Two finance scenarios for a new stadium that would require the participation of the County of San Diego include an IFD or countywide ballot initiative for a sales tax increase. Both options would require the approval of a majority of the San Diego County Board of Supervisors.

Additional Finance Committee Information

Market Analysis for Potential New Stadium

BSG conducted a market analysis because the Task Force was interested in understanding the current market environment for a potential new stadium. The report provided by BSG was not intended to be a recommendation to construct a new facility, but rather to provide factual results and analysis of current market conditions.

As a premise for the study, the proposed stadium would primarily serve as the home field for the Chargers. Specifically, the stadium would be designed for use by the Chargers, but would also be able to host collegiate sporting events, amateur sporting events, concerts, and meetings, among others. It is assumed that the proposed facility would be designed to meet the NFL's requirements to host the Super Bowl.

The market analysis (and resulting financial analysis included in the Finance section of this report) has been limited in scope, as BSG has not conducted corporate surveys, focus groups, or promoter/user interviews. The feasibility of the proposed stadium depends upon many factors, including an analysis of the estimated market demand for the facility. Overall, major determinants of market feasibility include:

- Local and Regional Economies
- Market Demographic Characteristics
- Existing and Planned Competing and/or Complementary Facilities

- Type and Mix of Events
- Potential Facility Users
- Potential Premium Seat Purchases

GENERAL OBSERVATIONS – DEMOGRAPHICS

A comprehensive review of the demographic characteristics of comparable markets was completed based on a Consolidated Metropolitan Statistical Area (CMSA) market definition by BSG. BSG's report describes the methodology in detail.

Consideration was given to (1) the markets of the NFL and (2) the 10 markets immediately larger than and the 10 markets immediately smaller than the San Diego CMSA in terms of population. Market demographics have also been adjusted by the number of professional franchises from the NFL, MLB, NBA, and the NHL in each market. It is important to analyze the adjusted market demographics to obtain a clearer understanding of the market supply and demand. Many professional franchises benefit from being one of only a limited number of franchises in the market area, and are able to capture a greater portion of the population, households, EBI, corporate demand, and advertising dollars, among others. Metropolitan areas can become diluted with too many franchises, and thereby, the area may not be able to support a franchise.

COMPETITIVE FACILITIES – GENERAL OBSERVATIONS

Direct competition from comparable stadiums, as well as indirect competition from stadiums, arenas, amphitheaters, performing arts centers (to a lesser degree) and other entertainment alternatives may impact the operations of the proposed facility. Direct and indirect competitors of the proposed stadium could impact the operations of the stadium in terms of number of events, attendance, advertising/sponsorship revenues, premium seating leasing activity, and overall profitability.

- The San Diego market has a limited inventory of comparable facilities that would provide direct competition to the proposed stadium. PETCO Ballpark will provide the most direct competition.

- Other facilities located outside the San Diego market area, such as facilities in the extended Los Angeles market area, may offer limited competition.

- Given the limited inventory of stadium/arena seats in San Diego, there would appear to be an opportunity to develop a new stadium and generate significant revenues therein. However, it is unlikely that the market could support the continued operation of Qualcomm Stadium if a new football stadium were also to be constructed in addition to operating the current stadium. (as referenced earlier, Appendix K contains the Executive Summary which includes the Market Analysis)

Costs of Attracting an NFL Franchise After Losing An Existing Franchise

In considering the value of the Chargers to San Diego and the possibility of losing the team to another city, the Finance Committee was interested in how much it had cost other cities that had lost NFL franchises to get them back at a later point in time. BSG was asked to address this question and presented a summary report, including several case studies. That report follows.

Although the NFL generally disfavors franchise relocations, several franchises have relocated:

Year	Original Franchise	Relocation City, State
1961	Los Angeles Chargers (AFL)	San Diego, CA
1963	Dallas Texans (AFL)	Kansas City, MO (Chiefs)
1982	Oakland Raiders	Los Angeles, CA
1984	Baltimore Colts	Indianapolis, IN
1988	St. Louis Cardinals	Phoenix, AZ
1995	Los Angeles Raiders	Oakland, CA
1995	Los Angeles Rams	St. Louis, MO
1996	Cleveland Browns	Baltimore, MD (Ravens)
1997	Houston Oilers	Nashville, TN (Titans) - (1)

(1) - Franchise played one interim season in Memphis, TN.

Sources: National Football League and industry research.

The primary factors that influence NFL relocation decisions include but are not limited to franchise/league revenues, franchise stability and presence in key media markets. The last four relocations have taken place largely due to failed stadium negotiations.

Should a community desire a team, the costs to attract a relocation or expansion franchise are typically higher than retaining the existing franchise. Direct and indirect costs to attract a relocation franchise can be significant.

Expenses that could impact a community to which a franchise relocates are:

- A new stadium (or significant renovation) with a significant public investment is typically required.
- Franchise/private investment (if any) is typically well below the average of non-relocation franchises
- NFL relocation fees are often paid directly or indirectly by the public and can range from $20.0 to $30.0 million
- Franchise relocation/moving expenses are often paid directly or indirectly by the public
- Personal seat license (PSL) proceeds are subject to revenue sharing among all teams in the league (34%), though waivers are provided in select cases

- G-3 loan proceeds historically have not been available for relocation franchises
- Relocation franchises typically receive favorable stadium lease terms
- Significant administrative/overhead costs incurred during the "proposal" process
- Lost economic/fiscal impacts

The costs to attract an expansion franchise can also be significant:

- A new stadium (or significant renovation) with a significant public investment is typically required (exception: Ericsson stadium, home of the Carolina Panthers)
- Franchise/private investment (if any) is typically well below the average of non-expansion franchises
- NFL expansion fees – must identify a potential ownership group (most recent expansion fee: $700 million for the Houston Texans)
- PSL proceeds are subject to revenue sharing among all teams in the league (34%) – waivers provided in select cases
- G-3 loan proceeds have historically not been available for expansion franchises
- Expansion franchises typically receive favorable stadium lease terms
- Significant administrative/overhead costs incurred during the "proposal" process
- Lost economic/fiscal impacts

Aside from the potential costs incurred to attract a franchise, it can take many years to lure another franchise to a market that has lost one. Examples of this include:

- Los Angeles (Raiders) – Los Angeles has yet to attract a franchise (last season played in Los Angeles was 1994)
- Los Angeles (Rams) – Los Angeles has yet to attract a franchise (last season played in Anaheim was 1994)
- Oakland (Raiders) – 13 seasons (last played in Oakland in 1981 before moving to Los Angeles, and didn't return to Oakland until1995)
- Baltimore (Colts) – 12 seasons (Colts last played in Baltimore in 1983, and Baltimore Ravens first game was in 1996)
- St. Louis (Cardinals) – 7 seasons (Cardinals last played in St. Louis in 1987, and St. Louis Rams first game was in 1995)
- Houston (Oilers) – 5 seasons (Oilers last season played in Houston in 1996 – first expansion game played in 2002)
- Cleveland (Browns) – 3 seasons (Browns last season played in Cleveland in 1995 – first expansion game played in 1999)

To demonstrate more specifically the trends outlined above, case studies of four franchises that relocated to another market were prepared. The relocation case studies are of the Oakland Raiders, formerly located in Los Angeles; the St. Louis Rams, formerly located in Los Angeles; Baltimore Ravens, formerly located in Cleveland and known as the Browns; and the Tennessee Titans, formerly located in Houston and known as the Oilers. Additionally, case studies of two expansion franchises, the Houston Texans and Cleveland Browns, were presented. (Appendix O contains sources and uses tables from the BSG report.)

OAKLAND RAIDERS – NETWORK ASSOCIATES COLISEUM

The Raiders returned to Oakland, California from Los Angeles, California for the 1995 season after having originally left Oakland following the 1981 season. The relocation transaction included a major renovation, at a cost of over $130 million, to the existing stadium. The City of Oakland and Alameda County financed 100% of the cost of the renovation. The franchise did not participate in the financing.

In addition to the stadium improvements, other public costs reportedly totaled $64.9 million:

- Raider relocation/general loan - $31.9 million
- Raiders practice facility loan - $10.0 million
- Raiders football marketing loan/"year 1 day of game" expenses - $12.0 million
- Oakland A's reimbursement - $11.0 million

Notes: loans are reportedly non-recourse. PSL proceeds (originally expected to reach $100 million) used to fund stadium improvements and relocation/other expenses – actual proceeds significantly less.

The Oakland A's, who share the multi-purpose stadium, are currently not satisfied with stadium so new stadium options are being evaluated.

ST. LOUIS RAMS – EDWARD JONES DOME

The St. Louis Cardinals moved to Phoenix, Arizona after the 1987 season. The Los Angeles Rams moved from Anaheim, California to St. Louis, Missouri for the 1995 season. St. Louis bid on an expansion franchise prior to the Rams relocation, but lost to Charlotte/Jacksonville.

The State of Missouri, County of St. Louis and City of St. Louis financed the construction of the dome, which is adjacent to the convention center, prior to receiving a commitment for a franchise. The public sector funded most of the dome construction, and a portion of the team's PSL proceeds, approximately $13.0 million, were reportedly used for other improvements, specifically a practice facility. The balance of PSL proceeds, estimated at $60-$65 million, were used to pay:

- NFL relocation fees (franchise received a partial PSL waiver)
- Franchise relocation/moving expenses
- City of Anaheim stadium debt
- Legal/other debt

Note: PSL proceeds could have been used to fund the stadium construction/reduce public sector debt.

BALTIMORE RAVENS – BALTIMORE RAVENS STADIUM

The Baltimore Colts moved to Indianapolis, Indiana after the 1983 season. The original Cleveland Browns moved from Cleveland, Ohio to Baltimore, Maryland for the 1996 season. Baltimore bid on an expansion franchise prior to the Browns relocation, but lost to Charlotte/ Jacksonville.

The State of Maryland funded a majority of the new stadium construction, with the franchise paying $24.0 million toward stadium construction. PSL proceeds of approximately $70 million were used to pay a portion of:

- NFL relocation fees (the franchise subsequently received a PSL waiver)
- Franchise relocation/moving expenses
- City of Cleveland settlement
- City of Berea settlement, practice facility costs
- Legal/other

Note: PSL proceeds could have been used to fund stadium construction/reduce public sector debt. Total relocation expenses exceeded PSL proceeds and the franchise funded the difference.

TENNESSEE TITANS – THE COLISEUM

The Houston Oilers relocated to Nashville, Tennessee in 1998, following an interim season in Memphis, Tennessee in 1997. The Titans played one season (1998) at Dudley Field (Vanderbilt Stadium).

The public sector, primarily the State of Tennessee and City of Nashville, funded a majority of the new stadium construction. Although the public sector retained PSL proceeds up to $71 million, while the franchise retained the balance with total proceeds reportedly reaching $91 million, a portion was used to pay:

- NFL relocation fees – $20 million (franchise received a PSL waiver)
- Franchise relocation/moving expenses – $28 million

Franchise/private sector net investment in the stadium was approximately $23 million, $71 million in PSL proceeds less $48 million in relocation related expenses.

HOUSTON TEXANS – RELIANT STADIUM

The Houston Oilers moved from Houston following the 1996 season. Houston was awarded an expansion franchise that began play in 2002 after competing with Los Angeles for the expansion franchise. The promise of a new stadium and the expansion fee bid were primary factors contributing to Houston's successful bid. The expansion fee for the franchise was reportedly $700 million.

The public sector, primarily the City of Houston and Harris County through state-enabled legislation, financed a majority of the stadium. The franchise invested the first $50 million of PSL proceeds toward stadium construction and provided a $25 million loan. Portions of the bond debt are supported by rodeo revenues and franchise rent/operations.

CLEVELAND BROWNS – CLEVELAND BROWNS STADIUM

The original Cleveland Browns moved from Cleveland following the 1995 season. Cleveland was later awarded an expansion franchise that began play in 1999. Through negotiations with the NFL, the city was promised a relocation or expansion franchise if the city would provide a new stadium. The expansion fee for the franchise was reportedly $476 million.

The public sector, primarily the City of Cleveland, financed a majority of the stadium. The NFL invested approximately $48 million toward the construction of the stadium; PSL proceeds were utilized. The franchise reimbursed the NFL for its investment in the stadium and reportedly paid for additional stadium related improvements. Additionally, the corporate community provided a loan to the project.

SUMMARY

Due to the complexity of the arrangements in each circumstance, it is difficult to identify one total cost figure for each of the cities above. It can be said that the public investment in the stadiums of all of these cities were higher than would have otherwise been had they not let go of their franchises initially. The cities also faced additional relocation-related expenses in addition to their investment in the stadium. The two expansion teams required payment of large expansion fees, including Houston, $700 million (paid by franchise owner) and Cleveland, $476 million (paid by franchise owner).

<u>NFL Information</u>

During a presentation by Rick Horrow, consultant to the National Football League, in November 2002 to the Task Force, it was stated that significant public money was utilized by cities that had lost an NFL franchise and were later awarded a new franchise. The presentation stated that the most significant public contributions used to recruit new franchises were as follows:

- Houston $309 million
- St. Louis $257 million
- Cleveland $212 million
- Baltimore $200 million

Note: These figures generally reflect the public sector's investment in the stadium construction.

Super Bowl Economic Impact

The Finance Committee requested and received several economic impact reports from the NFL. The committee was primarily interested in the information about the 1998 Super Bowl held in San Diego. In 1998, according to the NFL data, the economic impact of the Super Bowl in San Diego was $295 million, though several economists raised concern over the formulas often used to gauge economic impact and suggested numbers may be significantly less. These economists did recognize that there is some economic impact to a region that hosts a Super Bowl, but when factoring in direct spending related to the event, the impact number drops significantly compared to what the NFL and other advocates communicate when discussing this issue.

Though the NFL stated that the previous five Super Bowls, not including the one played in San Diego on January 26, 2003, generated between $295 and $396 million in local economic impact, the Finance Committee focused mostly on the more conservative direct spending numbers in communities that host a Super Bowl.

Direct impacts are defined as new spending in San Diego resulting from the Super Bowl (and related events) generated by visitors, media and other organizations. Indirect impacts are defined as the portion of the direct spending that is "re-spent" within the region's economy. The economic impact is a combination of the direct impact and indirect impacts.

DIRECT SPENDING SUMMARY - (1998 Super Bowl in San Diego, report prepared by Pricewaterhouse Coopers):

Category	City of San Diego	County of San Diego	State of California
Visitors	$68,270,000	$89,280,000	$81,860,000
NFL	$10,230,000	10,250,000	$10,520,000
Media	$5,770,000	$5,770,000	$6,100,000
NFL Contractors	$3,930,000	$3,930,000	$9,540,000
Corporate Sponsors	$3,250,000	$3,280,000	$3,280,000
Major Groups	$2,370,000	$2,370,000	$2,370,000
Host Committee	$1,300,000	$1,300,000	$1,300,000
Other	$7,740,000	$7,740,000	$7,740,000
Total	$102, 860,000	$123,920,000	$122,710,000

In addition, during a presentation to the Task Force by the San Diego Convention and Visitors Bureau (CONVIS), the following statistics were shared to demonstrate how they determined that there was an economic impact of a Super Bowl to San Diego.

The following data on the 1998 Super Bowl was provided by CONVIS:

Benchmark	**1997**	**1998 (Super Bowl)**	**1999**
Hotel Occupancy	61.3%	66.2%	62.8%
Room Nights	859,145	927,820	889,337
Average Daily Rate	$81.80	$103.09	$96.48
Visitor Spending	$329.3 mil	$433.1 mil	$385.8 mil

In conclusion, the Finance Committee believes that the Super Bowl has a substantial, multi-million dollar impact upon San Diego each time we are the host, in addition to providing incalculable public relations benefits every time the international audience sees or hears reference to our beautiful city and its perfect climate in mid-winter. The impact may not be the hundreds of millions suggested by NFL-sponsored studies, but it is significant.